

# Third Quarter FY 2022 Results

*November 8, 2022*

# Q3 2022 Key Takeaways

- Topline results largely in line with expectations against a macro backdrop that has core customer facing significant inflationary pressures.
- Total net sales (1.6%) to \$502 million; Comparable sales (3.2%) vs. Q3 2021 or +11.2% vs. 2019
  - Seasonal sales were +2.8% versus prior year driven by solid results during July 4<sup>th</sup> and Summer
  - Comparable sales in Core categories (3.7%) versus 2021, but +23.6% versus 2019
  - Wholesale (3.6%) y/y due to continued sales strength in Canada, offset by declines at Anagram, as the industry manages tight helium supply conditions
  - Digitally enabled sales represented ~13.0 % of Retail Sales as we continue to deliver an enhanced customer experience through digital capabilities
- Transitory cost headwinds continue to pressure the bottom line, but transformation work is driving improved revenues versus the pre-pandemic period
- Implemented annualized targeted cost reductions of \$30 million, expected to be fully realized in 2023



# October and Halloween Season Update

- October comparable sales were flat vs. prior year and +12.3% vs. October 2019
  - Overall enterprise-wide Halloween sales results were up y/y
    - Positive Halloween season performance can partially be attributed to strong inventory position going into and throughout the season.
- Flat October results and positive Halloween performance, while encouraging given the current backdrop, fell short of our original expectations.
- Operated 149 Halloween City pop-up stores vs 90 last year
  - Immersive, pop-up experience is a great complement to our Party City stores.
  - Continue to test, learn and improve to deliver a better experience for the customer
  - Remain bullish about our ability to grow sales and profitability in this channel

# Focus Areas

**Focused on the growth initiatives with the strongest near-term upside and market expansion opportunities:**

- Continuing store conversions to the Next Generation prototype
  - Opened 15 NXTGEN stores in Q3, totaling 174 NXTGEN stores as of the end of the quarter
  - Expect to complete between 80 to 85 new Next Generation stores in 2022 and anticipate ending the year with 175-180 NXTGEN store remodels or openings in the chain
  - We are moderating the pace of conversions to reflect the current environment in the near-term
- Delivering more compelling solution selling offerings to our wholesale customers
- Continuing to evolve our Halloween City pop-up store channel to drive growth and market share





# Q3 FY22 Financial Summary

# Financial Summary

	Q3 2022 Actual	Q3 2021 Actual
Net Sales	\$502.2 million	\$510.2 million
Brand Comp	(3.2%)	+7.5%
Adjusted EBITDA*	\$2.4 million	\$42.4 million
Adjusted Net Income (Loss)*	(\$157.2) million	\$2.9 million
Adjusted EPS (LPS)*	(\$1.39)	\$0.02
Free Cash Flow**	(\$22.5) million	\$34.1 million
Party City Corporate Stores	761	754
Halloween City Stores	149	90

\*Please refer to appendix for reconciliation of GAAP to Non-GAAP measures

\*\*Free cash flow defined as Adjusted EBITDA less capital expenditures

# Revenue Performance

Q3 2022 Reported Net Sales Decreased 1.6% Versus Prior Year

Wholesale		
	Q3 2022	Q3 2021
Revenue Growth	(3.6%)	(33.6%)

Retail		
	Q3 2022	Q3 2021
Net Sales Growth	(1.0%)	+8.9%
Comparable Brand Sales	(3.2%)	+7.5%



# Balance Sheet and Free Cash Flow

	September 30, 2022	December 31, 2021
Cash	\$29.8 million	\$47.9 million
Inventories, net	\$745.7 million	\$443.3 million
Accounts Payable	\$208.4 million	\$161.7 million
Net Principal Amount Debt*	\$1,667 million	\$1,284 million
Leverage Ratio**	10.6x	4.8x
LTM Free Cash Flow***	\$51.9 million	\$187.1 million

\*Net of cash

\*\*Defined as principal debt (net of cash) to LTM Adjusted EBITDA

\*\*\*Free cash flow defined as Adjusted EBITDA less capital expenditures

# Bridge of Balance Sheet Debt to Principal Balance of Debt

	Party City Credit Group	Anagram Holdings, LLC	PCHI Consolidated
	September 30, 2022		
(in Thousands)	Principal Amount	Net Carrying Amount	Net Carrying Amount
Loans and notes payable*	446,140	442,855	—
8.75% Senior Secured First Lien Notes – due 2026	750,000	735,588	—
6.125% Senior Notes – due 2023	22,924	22,876	—
6.625% Senior Notes – due 2026	92,254	91,699	—
First Lien Party City Notes – due 2025	161,669	188,920	—
First Lien Anagram Notes – due 2025	118,699	—	147,987
Second Lien Anagram Notes – due 2026	93,613	—	142,778
Finance lease obligations	11,724	11,724	—
Total debt	1,697,023	1,493,662	290,765
Less: Cash	(29,810)	(27,834)	(1,976)
Total debt net of cash	\$ 1,667,213	\$ 1,465,828	\$ 288,789

\*Balance consists of ABL Facility.

# Outlook

	FY 2022 Outlook
Net Sales	\$2.140 to \$2.190 billion
Brand Comparable Sales	-3% to -1%
Adjusted EBITDA*	\$130 to \$150 million
GAAP Net Income	(\$199) to (\$184) million
Capital Expenditures	\$90 to \$100 million or \$60 to \$70 million net of tenant improvement allowances
NXT Gen Store count	80 to 85 openings and remodels

Notes:

\*Please refer to appendix for reconciliation of GAAP to Non-GAAP measures.



# APPENDIX



# Reconciliation of Non-GAAP Financial Measures to GAAP Measures

**PARTY CITY HOLDCO INC.**  
**RECONCILIATION OF ADJUSTED EBITDA**  
(Unaudited)

	<u>Three Months Ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
(Dollars in thousands)				
<b>Net (loss) income attributable to common shareholders of Party City Holdco Inc.</b>	\$ (372,992)	\$ (2,789)	\$ (237,708)	\$ 12,958
Interest expense, net	26,926	23,899	74,505	64,229
Income tax expense	194,871	388	4,625	7,128
Depreciation and amortization	15,206	15,433	46,812	50,293
<b>EBITDA</b>	<b>(135,989)</b>	<b>36,931</b>	<b>(111,766)</b>	<b>134,608</b>
Deferred rent (c)	3,235	904	9,616	2,032
Stock-based compensation - employee	1,917	1,892	5,847	4,854
Other restructuring, retention and severance (a)	281	-	994	2,620
Long-lived assets impairment (b)	494	-	10,477	-
COVID-19 Sanitation and Cleaning Expense (d)	-	-	-	1,270
Closed store expense (e)	745	603	3,454	3,739
Loss on sale of property, plant and equipment	-	2,687	-	2,798
Merchandise transformation, relocation payroll	216	860	1,474	2,981
Corporate reorganization consulting	604	-	1,808	-
One-time legal settlement	-	-	384	-
Goodwill impairment (f)	133,000	-	133,000	-
Loss on sale of business	-	-	-	3,211
Foreign currency (gains) losses, net	(1,218)	343	(1,746)	(968)
Net gain on debt repayment	-	(1,332)	-	(1,106)
Note receivable	55	33	472	138
Undistributed loss in equity method investments	(984)	(554)	(2,354)	(654)
Gain or loss on sale of PP&E	-	-	(73)	-
<b>Adjusted EBITDA</b>	<b>2,358</b>	<b>42,367</b>	<b>51,585</b>	<b>155,523</b>

# Reconciliation of Non-GAAP Financial Measures to GAAP Measures

**PARTY CITY HOLDCO INC.**  
**RECONCILIATION OF ADJUSTED NET INCOME**  
**(Unaudited)**

	<u>Three Months Ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
(Dollars in thousands, except per share amounts)				
<b>Net (loss) income attributable to common shareholders of Party City Holdco Inc.</b>	\$ (372,992)	\$ (2,789)	\$ (237,708)	\$ 12,958
Income tax expense	194,871	388	4,625	7,128
<b>(Loss) income before income taxes</b>	\$ (178,121)	\$ (2,401)	\$ (233,083)	\$ 20,086
Intangible asset amortization	1,527	2,177	4,599	7,008
Amortization of deferred financing costs and original issuance discounts	1,403	1,320	3,969	3,257
Other restructuring, retention and severance (a)	284	—	994	1,967
COVID-19 sanitation and cleaning expense (d)	—	—	—	1,270
Long-lived assets impairment (b)	425	—	10,408	—
Goodwill impairment (f)	133,000	—	133,000	—
Non-recurring legal settlements/costs	—	—	384	—
Stock option expense	49	93	217	310
Loss on sale of assets	—	2,642	—	2,642
Restricted stock unit and restricted cash awards expense – performance-based	686	930	1,999	2,901
Loss on sale of business	—	—	—	3,211
<b>Adjusted net (loss) income before income taxes</b>	(40,747)	4,761	(77,513)	42,652
Adjusted income tax expense (g)	116,426	1,902	92,553	11,966
<b>Adjusted net (loss) income</b>	\$ (157,173)	\$ 2,859	\$ (170,066)	\$ 30,686



# Reconciliation of Non-GAAP Financial Measures to GAAP Measures

**PARTY CITY HOLDCO INC.**  
**RECONCILIATION OF ADJUSTED NET INCOME**  
**(Unaudited)**

<b>Net (loss) income per share attributable to common shareholders of Party City Holdco Inc. - Diluted</b>	\$ (3.29)	\$ (0.02)	\$ (2.11)	\$ 0.11
<b>Adjustments per common share - diluted:</b>				
Income tax expense	1.72	-	0.04	0.06
<b>(Loss) income before income taxes</b>	<b>(1.57)</b>	<b>(0.02)</b>	<b>(2.07)</b>	<b>0.17</b>
Intangible asset amortization	0.01	0.02	0.04	0.07
Amortization of deferred financing costs and original issuance discounts	0.01	0.01	0.04	0.03
Other restructuring, retention and severance	-	-	0.01	0.02
COVID Sanitation & Cleaning	-	-	-	0.02
Long-lived assets impairment	-	-	0.09	-
Goodwill impairment	1.18	-	1.18	-
Loss on sale of assets	-	0.02	-	0.02
Restricted stock unit and restricted cash awards expense – performance-based	0.01	0.01	0.02	0.04
<b>Adjusted net (loss) income before income taxes</b>	<b>(0.36)</b>	<b>0.04</b>	<b>(0.69)</b>	<b>0.37</b>
Adjusted income tax (benefit) expense	1.03	0.02	0.82	0.10
<b>Adjusted net (loss) income per common share – diluted</b>	<b>\$ (1.39)</b>	<b>\$ 0.02</b>	<b>\$ (1.51)</b>	<b>\$ 0.26</b>
<b>Weighted-average number of common shares – diluted</b>	<b>113,214,670</b>	<b>116,467,755</b>	<b>112,751,523</b>	<b>115,822,121</b>

# Reconciliation of Non-GAAP Financial Measures to GAAP Measures

## Reconciliation of FY 2022 Forecasted GAAP Net Income to Adjusted EBITDA

(in thousands)	Low	High
GAAP Net Income	\$ (199,000)	\$ (184,000)
Income tax	(4,000)	1,000
Interest expense	99,000	99,000
Depreciation and Amortization Expense	65,000	65,000
GAAP EBITDA	\$ (39,000)	\$ (19,000)
EBITDA Addbacks:		
Deferred Rent Cost of Sales	9,000	9,000
Stock-based compensation - employee	8,000	8,000
Deferred Rent SG&A	3,000	3,000
Closed store expense	4,000	4,000
Other restructuring, retention and severance	1,000	1,000
Long-lived assets impairment	10,000	10,000
Other SG&A	4,000	4,000
Goodwill Impairment	133,000	133,000
Foreign currency (gains), net	(2,000)	(2,000)
Other	(1,000)	(1,000)
Adjusted EBITDA	<u>\$ 130,000</u>	<u>\$ 150,000</u>

# Notes to Reconciliation of Non-GAAP Financial Measures to GAAP Measures

- (a) Amounts expensed principally relate to severance due to one-time organizational changes.
- (b) In December 2021, the Company announced the closure of a manufacturing facility in New Mexico that ceased operations in February 2022. As a result, the Company recorded related shutdown charges. In addition, during the nine months ended September 30, 2022, the Company recorded an impairment charge related to certain lease assets and property and equipment. See Note 3, Disposition of Assets and Lease-Related Impairments in Item 1, “Condensed Consolidated Financial Statements (Unaudited)” in the Quarterly Report on Form 10-Q).
- (c) The “deferred rent” adjustment reflects the difference between accounting for rent and landlord incentives in accordance with GAAP and the Company’s actual cash outlay.
- (d) In fiscal year 2021, the expenses consisted of additional one-time store cleaning costs, cleaning supplies such as hand sanitizer, and signage related to Covid-19 restrictions for all retail stores, which were incurred from January through June 2021 due to the evolving governmental requirements that existed during such time period.
- (e) Charges incurred related to closing and relocating stores, as we do not undertake such closures or relocations on a predictable cycle and the charges can vary significantly.
- (f) Goodwill impairment recorded in September 2022 as part of the annual review.
- (g) Represents income tax expense/benefit after excluding the specific tax impacts for each of the pre-tax adjustments. The tax impacts for each of the adjustments were determined by applying to the pre-tax adjustments the effective income tax rates for the specific legal entities in which the adjustments were recorded.