



SPAR Group, Inc. Reports Fiscal 2022 First Quarter Results

May 16, 2022

Solid Performance and Return to Profitability

AUBURN HILLS, Mich., May 16, 2022 /PRNewswire/ -- **SPAR Group, Inc.** (NASDAQ: SGRP) ("SPAR", "SPAR Group" or the "Company"), a leading global provider of merchandising, marketing, and distribution services with over 25,000+ team members deployed across nine countries, today reports financial and operating results for the fiscal quarter ended March 31, 2022.

Mike Matacunas, the Company's President and Chief Executive Officer, commented, "We performed well against our plan, and delivered \$.03 earnings per share in the first quarter. While revenue comparisons were difficult due to pent up demand from re-openings in early 2021, we improved profitability as planned, announced exciting new partnerships, and continued making progress on our transformation to a next-generation global software and services business.

"Our team is laser focused on our strategic initiatives and are continuing to build productive global partnerships and programs. While we continue to watch industry competitors, we have elevated the SPAR model. We have created a progressive leadership position in the market to serve our customers with best-in-class merchandising, marketing, and distribution services," concluded Matacunas.

First Quarter 2022 Financial Results

The Company historically operated under two divisions: Domestic and International. The Domestic division was comprised of all operations within the United States, and the International division was a consolidation of all operations and joint ventures outside of the United States. To better align the business structure with the Company's global growth strategy and leveraging regional footprint, the Company effective January 1, 2022, operates under three (3) divisions: Americas, Asia-Pacific ("APAC") and Europe, Middle East and Africa ("EMEA"). The Americas division is comprised of the United States, Canada, Mexico, and Brazil, APAC is comprised of China, Japan, Australia, and India, and EMEA is comprised of South Africa.

Net revenues were \$59 million, comprised of \$43 million from Americas and \$9 million from EMEA, and \$7 million from APAC. Compared to the prior year quarter, total net revenue decreased by 3.4%, Americas decreased over the prior year by 4.9%, EMEA increased by 19.5%, and APAC decreased by 18.1% from the prior year quarter. The decrease in net revenues was primarily due to a 2021 change in a labor law in the Americas (Mexico), the impact of COVID-19 lockdowns in APAC, offset partially by revenues from an acquisition in EMEA that anniversaries in July 2022.

Gross profit was \$11.8 million, or 20.1% of revenues, compared to \$12.3 million, or 20.1% of revenues, in the prior year quarter. Gross profit margins were positively impacted by realization of gross profit improvement initiatives in EMEA, offset by unfavorable margin mix in Americas and APAC.

Selling, general and administrative (SG&A) expenses were \$9.3 million, or 15.7% of revenues, compared to \$9.0 million, or 14.7% of revenues, in the prior year quarter. The increase from the prior year quarter was the result of additional expenditures needed to normalize post-pandemic operations versus the same period prior year, as well continued investment in the growth of the business. The increase in expenses was partially offset by a one-time favorable adjustment for the Majority Stockholders Agreement accrued in December 31, 2021 and executed in January of 2022.

Operating income was \$2.1 million versus operating income of \$2.7 million from the prior year quarter as explained above.

Net income attributable to SPAR Group, Inc. was \$674 thousand, or \$0.03 per share, compared to \$917 thousand, or \$0.04 per share, in the year ago quarter. Adjusted net income attributable to SPAR Group, Inc. ⁽¹⁾ in the first quarter was \$502 thousand, or \$0.02 per share, compared to \$1.1 million, or \$0.05 per share, in the year ago quarter.

Consolidated Adjusted EBITDA ⁽¹⁾ in the 2022 first quarter was \$2.4 million, compared to \$3.5 million in the prior year. Adjusted EBITDA attributable to SPAR Group, Inc. ⁽¹⁾ in the 2022 first quarter was \$1.5 million, compared to \$2.3 million in the prior year.

(1) Adjusted Net income attributable to SPAR Group, Inc. and Adjusted Diluted earnings per share attributable to SPAR Group, Inc., and Adjusted EBITDA are non-GAAP financial measure as defined and reconciled below.

Financial Position as of March 31, 2022

The Company's total worldwide liquidity at the end of the first quarter was \$18 million, with \$14 million in cash, cash equivalents and restricted cash and \$4 million of unused availability as of March 31, 2022. For the three months ended March 31, 2022, net cash used in operating activities was \$3.0 million and capital expenditures, including capitalized software, was \$478 thousand. The Company had net working capital of \$24.9 million at March 31, 2022.

Conference Call

The Company will conduct a conference call today at 11:00 a.m. Eastern Time to discuss financial and operating results for the quarter and year ended March 31, 2022. To access the call, live by phone, dial (877) 270-2148 and ask for the SPAR Group call at least 10 minutes prior to the start time. A telephonic replay will be available through May 23, 2022, by calling (877) 344-7529 using passcode ID 9679454#. A webcast of the call will also be available live and for later replay on the Company's Investor Relations website at <https://investors.sparinc.com/events-and-presentations>.

About SPAR Group, Inc.

SPAR Group is a leading global merchandising and marketing services company, providing a broad range of services to retailers, manufacturers, and distributors around the world. With more than 50 years of experience, 25,000+ merchandising specialists around the world, an average of 200,000+ store visits a week and long-term relationships with some of the world's leading manufacturers and retail businesses, we provide specialized capabilities across more than nine countries. Our unique combination of scale, merchandising and marketing expertise, combined with our unwavering commitment to excellence, separate us from the competition. For more information, please visit the SPAR Group's website at <http://www.sparinc.com>.

Cautionary Note Regarding Forward-Looking Statements

This Press Release contains, and the above referenced recorded comments, will contain "forward-looking statements" within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, made by, or respecting, SPAR Group, Inc. ("SGRP") and its subsidiaries (together with SGRP, "SPAR", "SPAR Group" or the "Company"), filed in a Current Report on Form 10-Q by SGRP with the Securities and Exchange Commission (the "SEC") on November 15, 2021. There also are forward-looking statements contained in SGRP's Annual Report on Form 10-K for its fiscal year ended December 31, 2021, as filed with the SEC on April 15, 2022, and SGRP's First Amendment to Annual Report on Form 10-K/A for the year ended December 31, 2020, as filed with the SEC on May 2, 2022 (as so amended, the "Annual Report"), in SGRP's amended definitive Proxy Statement respecting its Annual Meeting of Stockholders held on August 12, 2021, which SGRP filed with the SEC on July 20, 2021 (the "Proxy Statement"), and the SGRP's Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports and statements as and when filed with the SEC (including the Quarterly Report, the Annual Report and the Proxy Statement, the Information Statement, the Second Special Meeting Proxy/Information Statement, each a "SEC Report"). "Forward-looking statements" are defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other applicable federal and state securities laws, rules and regulations, as amended (together with the Securities Act and Exchange Act, the "Securities Laws").

The forward-looking statements made by the Company in this Press Release may include (without limitation) any expectations, guidance or other information respecting the pursuit or achievement of the Company's corporate strategic objectives. The Company's forward-looking statements also include, in particular and without limitation, those made in "Business", "Risk Factors", "Legal Proceedings", and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report. You can identify forward-looking statements in such information by the Company's use of terms such as "may", "will", "expect", "intend", "believe", "estimate", "anticipate", "continue", "plan", "project" or similar words or variations or negatives of those words.

You should carefully consider (and not place undue reliance on) the Company's forward-looking statements, risk factors and the other risks, cautions and information made, contained or noted in or incorporated by reference into this Press Release, the Annual Report, the Proxy Statement and the other applicable SEC Reports that could cause the Company's actual performance or condition (including its assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition) to differ materially from the performance or condition planned, intended, anticipated, estimated or otherwise expected by the Company (collectively, "expectations") and described in the information in the Company's forward-looking and other statements, whether expressed or implied. Although the Company believes them to be reasonable, those expectations involve known and unknown risks, uncertainties, and other unpredictable factors (many of which are beyond the Company's control) that could cause those expectations to fail to occur or be realized or such actual performance or condition to be materially and adversely different from the Company's expectations. In addition, new risks and uncertainties arise from time to time, and it is impossible for the Company to predict these matters or how they may arise or affect the Company. Accordingly, the Company cannot assure you that its expectations will be achieved in whole or in part, that the Company has identified all potential risks, or that the Company can successfully avoid or mitigate such risks in whole or in part, any of which could be significant and materially adverse to the Company and the value of your investment in SGRP's Common Stock.

You should also carefully review the risk factors described in the Annual Report (See Item 1A – Risk Factors) and any other risks, cautions or information made, contained or noted in or incorporated by reference into the Annual Report, the Proxy Statement or other applicable SEC Report. All forward-looking and other statements or information attributable to the Company or persons acting on its behalf are expressly subject to and qualified by all such risk factors and other risks, cautions and information.

The Company does not intend or promise, and the Company expressly disclaims any obligation, to publicly update or revise any forward-looking statements, risk factors or other risks, cautions or information (in whole or in part), whether as a result of new information, risks or uncertainties, future events or recognition or otherwise, except as and to the extent required by applicable law.

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- Financial Statements Follow -

SPAR Group, Inc.
Condensed Consolidated Statements of Operations
(unaudited, in thousands, except per share data)

Three Months Ended
March 31,

	2022	2021
Net revenues	\$ 58,994	\$ 61,097
Related party - cost of revenues	2,145	1,864
Cost of revenues	45,018	46,974
Gross profit	11,831	12,259
Selling, general and administrative expense	9,254	9,011
Depreciation and amortization	510	530
Operating income	2,067	2,718
Interest expense	149	147
Other (income), net	(87)	(75)
Income before income tax expense	2,005	2,646
Income tax expense	551	865
Net income	1,454	1,781
Net (income) attributable to non-controlling interest	(780)	(864)
Net income attributable to SPAR Group, Inc.	\$ 674	\$ 917
Basic and diluted income per common share:	\$ 0.03	\$ 0.04
Weighted average common shares – basic	21,583	21,188
Weighted average common shares – diluted	21,729	21,581

SPAR Group, Inc.
Condensed Consolidated Balance Sheets
(in thousands)

	March 31, 2022	December 31, 2021
	(Unaudited)	
Assets		
Current assets:		
Cash, cash equivalents and restricted cash	\$ 14,061	\$ 13,473
Accounts receivable, net	59,997	54,171
Prepaid expenses and other current assets	5,750	4,382
Total current assets	79,808	72,026
Property and equipment, net	3,005	2,929
Operating lease right-of-use assets	1,539	1,781
Goodwill	4,179	4,166
Intangible assets, net	2,488	2,295
Deferred income taxes	5,511	4,468
Other assets	1,694	1,351
Total assets	\$ 98,224	\$ 89,016
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 8,787	\$ 8,943
Accrued expenses and other current liabilities	23,054	22,031
Due to affiliates	3,333	3,270
Customer incentives and deposits	3,132	3,901
Lines of credit and short-term loans	15,831	11,042
Current portion of operating lease liabilities	814	1,019
Total current liabilities	54,951	50,206
Operating lease liabilities, less current portion	725	762
Long-term debt and other liabilities	700	700
Total liabilities	56,376	51,668
Commitments and contingencies		
Equity:		
SPAR Group, Inc. equity		
Preferred stock, Series - A, \$.01 par value: Authorized shares– 2,445,598 Issued and outstanding shares – None – March 31, 2022 and December 31, 2021	-	-
Preferred stock, Series - B Convertible, \$.01 par value: Authorized shares– 2,000,000 Issued and outstanding shares – 1,650,000 – Balance at March 31, 2022 and None – December 31, 2021	17	-
Common stock, \$.01 par value: Authorized shares – 47,000,000 Issued shares – 21,845,414 – Balance at March 31, 2022, and 21,320,312 – December 31, 2021	218	213
Treasury stock, at cost 54,329 shares – Balance at March 31, 2022 and December 31, 2021	(104)	(104)
Additional paid-in capital	20,629	17,231
Accumulated other comprehensive loss	(3,426)	(5,028)
Retained earnings	8,113	7,439
Total SPAR Group, Inc. equity	25,447	19,751

Non-controlling interest	<u>16,401</u>	<u>17,597</u>
Total equity	<u>41,848</u>	<u>37,348</u>
Total liabilities and equity	<u>\$ 98,224</u>	<u>\$ 89,016</u>

SPAR Group, Inc.
Consolidated Statements of Cash Flows
(unaudited, in thousands)

	<u>Three Months Ended March 31,</u>	
	<u>2022</u>	<u>2021</u>
Operating activities		
Net income	\$ 1,454	\$ 1,781
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	510	530
Non-cash lease expense	241	421
Bad debt expense, net of recoveries	34	69
Share-based compensation	150	99
Majority Stockholders Agreement	(420)	-
Changes in operating assets and liabilities:		
Accounts receivable	(5,780)	(6,100)
Prepaid expenses and other assets	(1,716)	857
Accounts payable	(145)	1,384
Operating lease liabilities	(242)	(421)
Accrued expenses, other current liabilities and customer incentives and deposits	2,916	3,773
Net cash (used in) provided by operating activities	<u>(2,998)</u>	<u>2,393</u>
Investing activities		
Purchases of property and equipment and capitalized software	(478)	(332)
Net cash used in investing activities	<u>(478)</u>	<u>(332)</u>
Financing activities		
Borrowings under line of credit	19,271	15,715
Repayments under line of credit	(14,446)	(12,069)
Cash received (payments) from stock options exercised	-	(65)
Net cash provided by financing activities	<u>4,825</u>	<u>3,581</u>
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	<u>(761)</u>	<u>(1,901)</u>
Net change in cash, cash equivalents and restricted cash	<u>588</u>	<u>3,741</u>
Cash, cash equivalents and restricted cash at beginning of period	<u>13,473</u>	<u>15,972</u>
Cash, cash equivalents and restricted cash at end of period	<u>\$ 14,061</u>	<u>\$ 19,713</u>
Supplemental disclosure of cash flows information:		
Interest paid	\$ 162	\$ 159
Income taxes paid	\$ 611	\$ 550
Non-cash Majority Stockholders Agreement	\$ 3,270	\$ -

Reconciliation of GAAP to Non-GAAP Financial Measures

Adjusted net income attributable to SPAR Group and related per share amounts represents net income attributable to SPAR Group adjusted for the removal of a one-time positive adjustment related to the majority stockholders change of control agreement accrued in 2021 and realized in January of 2022. Adjusted EBITDA represents net income before, as applicable from time to time, (i) interest expense, net, (ii) provision (benefit) for income taxes, (iii) depreciation and amortization of long-lived assets, (iv) share based compensation expense, (v) nonrecurring legal settlement costs and associated legal expenses unrelated to the Company's core operations. These metrics are supplemental measures of our operating performance that are neither required by, nor presented in accordance with, GAAP. These measures have limitations as analytical tools and should not be considered in isolation or as an alternative to performance measure derived in accordance with GAAP as an indicator of our operating performance. We present Adjusted net income attributable to SPAR Group and per share amounts, and Adjusted EBITDA because management uses these measures as key performance indicators, and we believe that securities analysts, investors and others use these measures to evaluate companies in our industry. Our calculation of these measures may not be comparable to similarly named measures reported by other companies. The following tables present a reconciliation of net income, the most directly comparable measure calculated in accordance with GAAP, to these measures for the periods presented:

SPAR Group, Inc.
Net Income (Loss) attributable to SPAR Group, Inc. to
Adjusted Net Income (Loss) attributable to SPAR Group, Inc. Reconciliation
Diluted earnings per share attributable to SPAR Group, Inc. to
Adjusted Diluted earnings per share attributable to SPAR Group, Inc. Reconciliation
Fiscal Three Months Ended March 31, 2022 and 2021

Three Months Ended March 31,

(in thousands)	2021	2020
Net Income (Loss) attributable to SPAR Group Inc.	674	917
Add-back one-time impact (net of taxes)	<u>(172)</u>	<u>191</u>
Adjusted Net Income (Loss) attributable to SPAR Group, Inc.	502	1,108
Diluted earnings per share attributable to SPAR Group, Inc.	\$ 0.03	\$ 0.04
Add-back one-time impact (net of taxes)	<u>\$ (0.01)</u>	<u>\$ 0.01</u>
Adjusted Diluted earnings per share attributable to SPAR Group, Inc.	\$ 0.02	\$ 0.05

SPAR Group, Inc.
Net Income (Loss) to Consolidated Adjusted EBITDA to
Adjusted EBITDA attributable to SPAR Group, Inc. Reconciliation
Fiscal Quarters Ended March 31, 2022 and 2021

	Three Months Ended March 31,	
	2022	2021
Consolidated Net Income	\$1,454	\$1,781
Depreciation and amortization	510	530
Interest expense	149	147
Income Tax expense	551	865
Other income	(87)	(75)
Consolidated EBITDA	2,577	3,248
Share based compensation	150	99
Legal costs / Settlements - non-recurring	(368)	143
Board-related one-off costs, e.g. retirement costs	0	0
Acquisition-related expenses	0	0
Restructuring expenses	0	0
Consolidated Adjusted EBITDA	\$2,359	\$3,490
Adjusted EBITDA attributable to non controlling interest	(878)	(1,157)
Adjusted EBITDA attributable to SPAR Group, Inc.	\$1,481	\$2,333

Ratios:

<i>Net Income % of Consolidated Revenues</i>	2.5%	2.9%
<i>Consolidated Adjusted EBITDA % of Consolidated Revenues</i>	4.0%	5.7%
<i>Adjusted EBITDA attributable to SPAR % of Consolidated Revenues</i>	2.5%	3.8%

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