

The Stephan Co.
First Quarter Report
March 31, 2020

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Financial results are unaudited unless otherwise indicated.

The Stephan Co
CONSOLIDATED BALANCE SHEETS
 At March 31, 2020 and December 31, 2019
(In thousands, except share and per share amounts)

	<u>2020</u>	<u>2019</u>
	(Unaudited)	(unaudited)
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 325	\$ 280
Accounts receivable, net	150	145
Inventories, net	1,667	1,427
Prepaid expenses and other current assets	<u>39</u>	<u>56</u>
Total Current Assets	2,181	1,908
Other assets, net	79	73
Property and equipment, net	175	188
Deferred tax assets, net	495	495
Intangibles, net	236	236
Goodwill	<u>1,889</u>	<u>1,889</u>
TOTAL ASSETS	<u>\$ 5,055</u>	<u>\$ 4,789</u>
 <u>LIABILITIES & STOCKHOLDERS' EQUITY</u>		
Current Liabilities		
Accounts payable and accrued expenses	<u>\$ 969</u>	<u>\$ 844</u>
Total Current Liabilities	969	844
TOTAL LIABILITIES	<u>969</u>	<u>844</u>
 COMMITMENTS AND CONTINGENCIES		
 STOCKHOLDERS' EQUITY		
At March 31, 2020 and December 31, 2019:		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; none issued or outstanding	---	---
Common stock, \$.01 par value; 25,000,000 shares authorized; 4,652,436 and 4,652,436 shares in 2020 and 2019, respectively issued		
(4,006,215 shares outstanding at March 31, 2020 and 4,006,215 shares outstanding at December 31, 2019)	46	46
Additional paid-in capital	18,639	18,639
Accumulated deficit	(13,333)	(13,474)
Treasury stock (646,221 shares at March 31, 2020 and 646,221 shares at December 31, 2019), at cost	<u>(1,266)</u>	<u>(1,266)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>4,086</u>	<u>3,945</u>
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	<u>\$ 5,055</u>	<u>\$ 4,789</u>

The Stephan Co
CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended March 31, 2020 and March 31, 2019
(in thousands, except per share data)

	<u>2020</u> (Unaudited)	<u>2019</u> (Unaudited)
Revenue	\$ 2,116	\$ 2,230
Cost of revenue	<u>1,357</u>	<u>1,466</u>
Gross profit	759	764
Selling, general and administrative expenses	596	543
Depreciation and amortization	<u>13</u>	<u>10</u>
Operating income	150	211
Other income/ (expenses), net	<u>(8)</u>	<u>13</u>
Income from continuing operations before income taxes	142	224
Income tax (expenses)/ Benefit	<u>-</u>	<u>-</u>
NET INCOME	<u>\$ 142</u>	<u>\$ 224</u>
Per common share:		
Income from continuing operations	\$ 0.04	\$ 0.06
Income from discontinued operations	<u>---</u>	<u>---</u>
Net income	<u>\$ 0.04</u>	<u>\$ 0.06</u>
Weighted average common shares outstanding	4,034,394	4,034,394

The Stephan Co
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 Three Months Ended March 31, 2020
(in thousands, except share information)

	<u>Shares Issued</u>	<u>Par Value</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Treasury Stock</u>	<u>Stockholders' Equity</u>
Balance at December 31, 2019 (Unaudited)	4,647,485	\$ 46	\$ 18,639	\$ (13,475)	\$ (1,266)	\$ 3,944
Stock buyback	---	---	---	---	---	---
Net Income	---	---	---	142	---	142
Balance at March 31, 2020 (Unaudited)	<u>4,647,485</u>	<u>\$ 46</u>	<u>\$ 18,639</u>	<u>\$ (13,333)</u>	<u>\$ (1,266)</u>	<u>\$ 4,086</u>

The Stephan Co
CONSOLIDATED STATEMENTS OF CASH FLOWS
 Three Months Ended March 31, 2020 and March 31, 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
	(Unaudited)	(Unaudited)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
NET INCOME	\$ 142	\$ 224
Net cash flows provided by operating activities:		
Deferred income taxes	-	-
Stock based compensation	-	-
Depreciation and amortization	13	10
Changes in operating assets & liabilities:		
(Increase) decrease in accounts receivable, net	(5)	(139)
(Increase) decrease in inventories, net	(240)	(56)
(Increase) decrease in prepaid expenses and other assets	10	(40)
Increase in accounts payable and accrued expenses	<u>125</u>	<u>236</u>
Net cash provided by operating activities - continuing operations	45	235
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Cash Paid for acquisition	-	-
Purchases of property and equipment	<u>-</u>	<u>(5)</u>
Net cash used in investing activities	-	(5)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Stock options exercised	-	-
Stock repurchased	-	(9)
Dividends paid	<u>-</u>	<u>(303)</u>
Net cash used in financing activities	-	(312)
NET (DECREASE) IN CASH	45	(82)
CASH AT BEGINNING OF PERIOD	<u>280</u>	<u>428</u>
CASH AT END OF THE PERIOD	<u>\$ 325</u>	<u>\$ 346</u>

Management's Discussion and Analysis

Business overview

The Stephan Co. ("SPCO") has three distinct operating segments: Williamsport Bowman, Morris Flamingo and MD Barber. Our Williamsport Bowman division is a wholesale barber distributor selling third party and proprietary branded products directly to barbershops. Morris Flamingo is a two-step wholesale distributor selling primarily our proprietary branded barber products to other Barber distributors. MD Barber is our online division that sells its owned brands and third party brands through various online channels. SPCO also owns a portfolio of barber brands including LatherKing, Campbell's, Stephan's, BarberMate, StixFix and MD Barber, among others. The company continues to pursue an acquisition program and is actively pursuing barber brands and distribution assets. The company remains valuation/returns focused.

Our business performed as expected during the first two months of the year, with sales level with the prior year and gross profit dollars rising 11%. Due to the widespread shut down of barbershops during March as a result of the Covid-19 pandemic, March revenues were down mid-single digits versus the prior year. Our wholesale business saw the sharpest decline, while our MD and other online channels saw increased revenues. Sales remained depressed during the first half of April, but have recently begun rebounding as customers re-stock in anticipation of re-opening.

The forced closure of businesses nationwide has not only reduced end customer demand but has disrupted the supply chain. Many manufacturers have halted the production and distribution of many of our primary products. Stephan carried above average inventory throughout the 1st quarter. We have thus far been able to fulfill higher demand among such categories as clippers and other electricals amidst selected supply shortages. A sustained closure of our customers and suppliers would continue to negatively effect our business and could impair our liquidity. We have reduced inventory since the end of the quarter and have thus far retained all employees, but may need to reduce staffing if conditions persist.

Stephan places the highest importance upon employee safety and welfare. Most employees have been working remotely, and the company has taken every precaution to ensure that essential warehouse staff are kept safe, through distancing, regular sanitizing, employee monitoring, and use of masks.

In early 2019 we received \$53,000 in additional tax liability assessment notices from the Pennsylvania Department of Revenue for the financial year 2016 and 2017 by disallowing the NOLs brought in from the merger with Williamsport Barber and Beauty Corporation. As a result of our successful appeal, the department has granted full relief, and importantly, the more than \$1.1 Million of NOLs transferred from Williamsport Barber and Beauty Corporation to Bowman Beauty are not subject to a limitation under IRC 382 and may be used to their full extent on the Pennsylvania tax return.

Results of Operations Three Months Ended March 31, 2020 vs. Three Months Ended March 31, 2019

Overall revenues for the three months ended March 31, 2020 were \$2,116,000 compared to \$2,230,000 for the three months ended March 31, 2019 or a decrease in revenue of \$114,000, or 5.1%. Barbershop closures caused a significant decline in March sales. Gross profit margins rose from 34.3% to 35.9% compared to the prior period on improved product mix and shipping cost efficiencies realized. Selling, General and administrative expenses for the quarter increased by approximately \$53,000, or 9.8%; adjusting for one-time expenses, these expenses were lower due to the facility consolidation savings being realized.

Liquidity and Capital Resources

We held cash of \$325,000 at March 31, 2020. Our cash was maintained in FDIC and NCUA-insured bank accounts.

Our continuing operations provided cash flows of approximately \$45,000 for the three months ended March 31, 2020. We incurred \$12,000 in costs toward one-time legal expenses.

We have adequate liquidity and do not foresee the need for additional capital for day-to-day operations in the next year. At March 31, 2020, we had in excess of \$17.0 million federal and approximately \$9.8 million state net operating loss ("NOL") carry forwards available to offset future taxable income, maintained approximately \$1.2 million in working capital and had total net worth of \$4 million.

We have no off-balance sheet financing arrangements except for operating leases primarily related to our distributor operations.

Three Months Ended March 31, 2020 and March 31, 2019

(in thousands)

	<u>2020</u>	<u>2019</u>
Sales	2,116	2,230
<i>% change</i>	-5.1%	0.2%
Gross profit	759	764
<i>% of sales</i>	35.9%	34.3%
SG&A	596	543
<i>% of sales</i>	28.2%	24.3%
Adjusted EBITDA	210	221
<i>% of sales</i>	9.9%	9.9%
Capex	-	5
Working capital (1)	848	733
Invested capital (2)	1,141	962
LTM adjusted EBITDA	489	727
Cash ROIC	42.8%	75.6%

Note: (1) Working capital = Inventory plus AR less AP

(2) Invested capital = total tangible assets less cash and payables and accruals.

Please read our Audited 2018 Annual Report, which can be found at www.otcmarkets.com (symbol: SPCO.PK), for further information about the Company's financial results and future plans.