

First Quarter FY 2022 Results

May 9, 2022

Q1 2022 Key Takeaways

- Delivered topline growth; bottom line results impacted by temporary disruption from Omicron variant in January, as well as both anticipated and unanticipated elevated cost pressures
- Total net sales increased 1.4% to \$433 million; Comparable sales +2.1% vs. Q1 2021
- Results fueled by strength in seasonal categories, partially offset by underperformance in select everyday categories
 - Select everyday category underperformance driven by Omicron-related softness in January and softer-than-expected March trends due to a difficult consumer backdrop
- Team continued to make strong progress against strategic priorities
- Confident in the long-term direction of the business

2022 Focus Areas

#1 Ongoing Customer Engagement Enhancements

- Remain committed to an aggressive rollout plan of **NXTGEN** stores in 2022 and beyond
 - Opened 35 NXTGEN stores in Q1 2022. Expect to open or remodel 100-125 NXTGEN stores in FY 2022
- Continue to lead in both **product innovation and quality**. On track to:
 - Introduce hundreds of new products, and continue to improve quality and innovation
 - Introduce new platforms to customers – in Q1, new yard sign program, updates to candy department
 - Leverage brands to clearly segment quality and occasions to consumers, starting with tableware category in Q2
- Enhance mission of moving from selling party products to providing the full party solution on our **website**
 - Fully launched our patent-pending customizable balloon builder, which was tested earlier in 2022, leading to higher conversion and AOV
 - New website in June will be a digital experience that shifts from transactional experience to celebration-building experience
- At wholesale, continue to expect strong growth from the Consumer Products Division in year ahead

2022 Focus Areas

#2 Enhancements to Digital Platforms, Information Technology, and Supply Chain

- Continue to fortify our vertical model advantages and mitigate supply chain challenges
 - Further integrating supply functions to improve operational synergies
 - Leveraging transportation and logistics opportunities to shorten lead times and mitigate costs
- Continue to invest in **Anagram** manufacturing capacity and innovation
 - Adding printing and fabrication machinery to further enhance supply and market differentiation
- Invest in **digital, technology and IT infrastructure** including new talent and resources
 - Made significant upgrades to digital capabilities
- Continue to invest in new data architecture, inventory management technology and increased space planning capabilities
 - Improve our knowledge, analytical capabilities, and productivity to benefit our business as well as partnerships across wholesale channels.



Q1 FY 22 Financial Summary

Financial Summary

	Q1 2022 Actual	Q1 2021 Actual
Net Sales	\$433.0 million	\$426.8 million
Brand Comp	+2.1%	+35.9%
Adjusted EBITDA*	\$4.6 million	\$32.4 million
Adjusted Net Income (Loss)*	(\$24.7 million)	(\$5.4 million)
Adjusted EPS (LPS)*	(\$0.22)	(\$0.05)
Free Cash Flow**	(\$14.0 million)	\$10.2 million
Party City Corporate Stores	759	751

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

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

Revenue Performance

Q1 2022 Reported Net Sales Increased 1.4% Versus Prior Year

Wholesale		
	Q1 2022	Q1 2021
Revenue Decline	-1.6%	-15.8%
Excluding Divestitures	+14.5%	~Flat*

Retail		
	Q1 2022	Q1 2021
Net Sales Growth	+2.3%	+10.0%
Comparable Brand Sales	+2.1%	+35.9%

* Also excludes 2020 Gifting Businesses Exit

Balance Sheet and Free Cash Flow

	March 31, 2022	December 31, 2021
Cash	\$32.6 million	\$47.9 million
Inventories, net	\$517.5 million	\$443.3 million
Accounts Payable	\$188.8 million	\$161.7 million
Net Principal Amount Debt*	\$1,431 million	\$1,284 million
Leverage Ratio**	6.0x	4.8x
LTM Free Cash Flow***	\$162.8 million	\$187.1 million

*Net of cash

**Defined as principal debt (net of cash) to 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
	March 31, 2022			
(in Thousands)	Principal Amount	Net Carrying Amount	Net Carrying Amount	Net Carrying Amount
Loans and notes payable*	\$ 211,829	\$ 209,112	\$ -	\$ 209,112
8.75% Senior Secured First Lien Notes – due 2026	750,000	733,815	-	733,815
6.125% Senior Notes – due 2023	22,924	22,848	-	22,848
6.625% Senior Notes – due 2026	92,254	91,627	-	91,627
First Lien Party City Notes – due 2025	161,669	193,501	-	193,501
First Lien Anagram Notes – due 2025	118,699	-	148,831	148,831
Second Lien Anagram Notes – due 2026	93,613	-	144,625	144,625
Finance lease obligations	12,405	12,405	-	12,405
Total debt	1,463,393	1,263,308	293,456	1,556,764
Less: Cash	(32,645)	(20,766)	(11,879)	(32,645)
Total debt net of cash	\$ 1,430,748	\$ 1,242,542	\$ 281,577	\$ 1,524,119

*Balance consists of ABL Facility.

Outlook

	FY 2022 Outlook
Net Sales	\$2.225 to \$2.300 billion
Brand Comparable Sales	-1% to 2%
Adjusted EBITDA*	\$235 to \$265 million
GAAP Net Income	\$30 to \$48 million with assumed tax rate of 38%**
Capital Expenditures***	\$110 to \$120 million
NXT Gen Store count	100 to 125 openings and remodels

Notes:

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

**Full year tax rate includes a valuation allowance related to the potential unrealizability of interest carryforward deductions.

***Capital Expenditures includes capital associated with the new headquarters building, which will be partially offset by tenant improvement allowances and state tax incentives.

APPENDIX

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

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

	Three months ended March 31,	
	2022	2021
(Dollars in thousands)		
Net (loss)	\$ (26,889)	\$ (14,118)
Interest expense, net	23,395	17,214
Income tax (benefit)	(16,355)	(3,469)
Depreciation and amortization	15,860	17,944
EBITDA	(3,989)	17,571
Inventory restructuring and early lease terminations (f)	—	3,138
Other restructuring, retention and severance (a)	—	2,051
Goodwill, intangibles and long-lived assets impairment (b)	2,154	—
Deferred rent (c)	2,525	1,526
Closed store expense (d)	987	1,593
Foreign currency (gains), net	(281)	(539)
Stock-based compensation - employee**	1,712	1,282
Undistributed loss in equity method investments	310	336
Gain on sale of property, plant and equipment	(119)	—
COVID - 19 (e)	—	615
Inventory disposal reserve	621	—
Loss on sale of business	—	3,211
Net loss on debt repayment (g)	—	226
Other	684	1,409
Adjusted EBITDA	\$ 4,604	\$ 32,419
Adjusted EBITDA Margin	1.1%	7.6%

** Stock-based compensation consists of stock-option expense – time-based, restricted stock units – time-based and restricted stock units – performance-based, which were shown separately in prior years.

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

PARTY CITY HOLDCO INC. RECONCILIATION OF ADJUSTED EBITDA, Continued (In thousands, unaudited)

	March 31, 2022 GAAP Basis (as reported)	Three Months Ended March 31, 2022 EBITDA Adjustments								March 31, 2022 Non-GAAP basis
		Goodwill, intangibles and long-lived assets impairment (b)	Inventory disposal reserve	Gain on sale of property, plant and equipment	Stock-based compensation - employee**	Deferred rent (c)	Closed store expense (d)	Foreign currency losses/(gains), net	Other	
Net sales	\$ 432,976									\$ 432,976
Cost of sales	294,968		(621)			(2,017)				292,330
Gross profit	138,008									140,646
Selling, General and administrative expenses**	158,060	(2,154)		119	(1,712)	(508)	(987)		(648)	152,170
(Loss) from operations	(20,052)									(11,524)
Interest expense, net	23,395								(40)	23,355
Other (income) expense, net	(203)							281	(306)	(228)
(Loss) before Income Taxes	(43,244)									(34,651)
Interest expense, net	23,395									23,395
Depreciation and amortization	15,860									15,860
EBITDA	(3,989)									4,604
Adjustments to EBITDA	8,593	(2,154)	(621)	119	(1,712)	(2,525)	(987)	281	(994)	—
Adjusted EBITDA	\$ 4,604	\$ (2,154)	\$ (621)	\$ 119	\$ (1,712)	\$ (2,525)	\$ (987)	\$ 281	\$ (994)	\$ 4,604

** Consists of wholesale selling expenses, retail operating expenses, art and development costs and general and administrative expenses, which were reported separately in the prior year.

	March 31, 2021 GAAP Basis (as reported)	Three Months Ended March 31, 2021 EBITDA Adjustments									March 31, 2021 Non-GAAP basis
		Early lease terminations	Net loss on debt repayment (g)	Stock-based compensation - employee**	Deferred rent (c)	Other restructuring, retention and severance (a)	Closed store expense (d)	COVID - 19 (e)	Foreign currency loss	Other	
Net sales	\$ 426,807										\$ 426,807
Cost of sales	274,521	(1,382)								124	273,263
Gross profit	152,286										153,544
Selling, General and administrative expenses**	149,021	(1,756)		(1,282)	(1,526)	(2,052)	(1,593)	(615)		(1,367)	138,831
Loss on disposal of assets in international operations	3,211									(3,211)	
Income from operations	54										14,713
Interest expense, net	17,214									(54)	17,160
Other (income) expense, net	427		(226)						539	(449)	292
(Loss) before income taxes	(17,587)										(2,739)
Interest expense, net	17,214										17,214
Depreciation and amortization	17,944										17,944
EBITDA	17,571										32,419
Adjustments to EBITDA	14,848	(3,138)	(226)	(1,282)	(1,526)	(2,052)	(1,593)	(615)	539	(4,957)	(0)
Adjusted EBITDA	\$ 32,419	\$ (3,138)	\$ (226)	\$ (1,282)	\$ (1,526)	\$ (2,052)	\$ (1,593)	\$ (615)	\$ 539	\$ (4,957)	\$ 32,419

** Consists of wholesale selling expenses, retail operating expenses, art and development costs and general and administrative expenses, which were reported separately in the prior year.

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

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

	Three months ended March 31,	
	2022	2021
(Dollars in thousands, except per share amounts)		
(Loss) before income taxes	\$ (43,244)	\$ (17,587)
Intangible asset amortization	1,544	2,477
Amortization of deferred financing costs and original issuance discounts	1,271	863
Other restructuring, retention and severance (a)	—	1,936
Goodwill, intangibles and long-lived assets impairment (b)	2,154	—
Stock option expense	85	113
Restricted stock unit and restricted cash awards expense – performance-based	569	817
COVID - 19 (e)	—	615
Loss on disposal of assets	—	3,211
Inventory disposal reserve	621	764
Adjusted (loss) before income taxes	(37,000)	(6,791)
Adjusted income tax (benefit) (h)	(12,321)	(1,382)
Adjusted net (loss)	\$ (24,679)	\$ (5,409)
Adjusted net (loss) per common share – diluted	\$ (0.22)	\$ (0.05)
Weighted-average number of common shares-diluted	112,407,040	110,917,349

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

Reconciliation of FY 2022 Forecasted GAAP Net Income to Adjusted EBITDA

(in thousands)	<u>Low</u>		<u>High</u>	
GAAP Net Income	\$	29,800	\$	48,400
Income tax		18,200		29,600
Interest expense		96,000		96,000
Depreciation and Amortization Expense		70,000		70,000
GAAP EBITDA	\$	214,000	\$	244,000
EBITDA Add-Backs		21,000		21,000
Adjusted EBITDA	\$	235,000	\$	265,000

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

- (a) Amounts expensed principally relate to severance due to 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 (see Note 3, Disposition of Assets 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) Charges incurred related to closing and relocating stores in the ordinary course of business.
- (e) Represents COVID-19 expenses for employees on temporary furlough for whom the Company provides health benefits; non-payroll expenses including advertising, occupancy and other store expenses.
- (f) Costs incurred for early lease terminations and a merchandise transformation project to transition and optimize stores to the reduced SKU assortment levels.
- (g) The Company recognized net gain on debt repayment in 2021.
- (h) 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.