

Second Quarter FY 2022 Results

August 8, 2022

Q2 2022 Key Takeaways

- Topline results largely as expected as we lapped a strong Q2 last year while cost headwinds, most of which are transitory in nature, pressured profitability
- Total net sales decreased 1.5% to \$527 million; Comparable sales (5.6%) vs. Q2 2021 or 12.2% vs. 2019
 - Core categories performed well against pre-pandemic levels, while being more challenged vs. last year's very strong performance
 - A number of Seasonal businesses saw solid performance in Q2 and we were extremely pleased with Easter, Mother's Day, Father's Day, Pride, and Graduation results
 - Wholesale increased 13.2% y/y due to higher sales to franchise and independent customers as well as strong performance in our Canadian business
 - Digitally enabled sales represented approximately 13% of Retail Sales as we continue to deliver an enhanced customer experience through digital capabilities
- Continue to benefit from transformation work, which has increased our relevancy

2022 Focus Areas

#1 Ongoing Customer Engagement Enhancements

- Focused on driving strong improvement to quality and product innovation while implementing strategic price increases to mitigate higher expenses
 - Graduation performed very well, driven by new product innovation in higher priced items, meeting customer demand for products they make their celebration unique and special
- Continue to enhance customer engagement with new digital capabilities
 - New website launched in June, enhancing mission of moving from selling party products to providing the full party solution
 - Balloon builder is a permanent feature of the new site. Experienced 150K total Balloon Builder visits for graduation season, which delivered almost 20% of seasonal digital balloon sales.
- At wholesale, continue to expect strong growth from the Consumer Products Division in 2H
 - Continued growth from traditional customer base, expanding Canadian Tire business, and larger Halloween orders from customers that experienced unprecedented sell through levels last season
 - Wholesale team has created and begun selling new branded propositions to the broader marketplace that leverage our consumer insights and position as an expert in the category

2022 Focus Areas

#2 Investing in customer experience and important improvements to fortify operating model

- Invest in NXTGEN stores, which continue to perform very well
 - Opened 35 NXTGEN stores in Q2 2022. Expect to open or remodel 85-100 NXTGEN stores in FY 2022
 - Anticipate ending 2022 with 182 NXTGEN store remodels or openings, lower than our initial 200 stores by year end plan, as we more tightly manage capex and expenses in 2H
- Invest in digital, technology and IT infrastructure
 - New talent and resources that drive customer engagement enhancements
- Take incremental actions to further mitigate supply chain challenges
 - Enhanced product visibility, additional inventory planning capabilities, demand and supply forecasting improvements and enhanced capacity planning
 - Continue to add new talent and further integrate supply chain functions
- Invest in new data and reporting platforms that will improve insights, analytics and productivity



Q2 FY 22 Financial Summary

Financial Summary

	Q2 2022 Actual	Q2 2021 Actual
Net Sales	\$527.4 million	\$535.7 million
Brand Comp	(5.6%)	+118.3%
Adjusted EBITDA*	\$45.8 million	\$85.8 million
Adjusted Net Income (Loss)*	\$11.5 million	\$34.1 million
Adjusted EPS (LPS)*	\$0.10	\$0.29
Free Cash Flow**	\$13.3 million	\$67.6 million
Party City Corporate Stores	756	749

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

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

Revenue Performance

Q2 2022 Reported Net Sales Decreased 1.5% Versus Prior Year

Wholesale		
	Q2 2022	Q2 2021
Revenue Growth	+13.2%	+33.4%

Retail		
	Q2 2022	Q2 2021
Net Sales Growth	(4.6%)	+138.9%

Comparable Brand Sales	(5.6%)	+118.3%
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Balance Sheet and Free Cash Flow

	June 30, 2022	December 31, 2021
Cash	\$39.2 million	\$47.9 million
Inventories, net	\$676.7 million	\$443.3 million
Accounts Payable	\$275.3 million	\$161.7 million
Net Principal Amount Debt*	\$1,447 million	\$1,284 million
Leverage Ratio**	9.9x	4.8x
LTM Free Cash Flow***	\$108.5 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

(in Thousands)	Party City Credit Group		Anagram Holdings, LLC	PCHI Consolidated
	Principal Amount	Net Carrying Amount	Net Carrying Amount	Net Carrying Amount
	June 30, 2022			
Loans and notes payable*	\$ 234,453	\$ 231,911	\$ —	\$ 231,911
8.75% Senior Secured First Lien Notes – due 2026	750,000	734,688	—	734,688
6.125% Senior Notes – due 2023	22,924	22,862	—	22,862
6.625% Senior Notes – due 2026	92,254	91,663	—	91,663
First Lien Party City Notes – due 2025	161,669	193,426	—	193,426
First Lien Anagram Notes – due 2025	118,699	—	148,732	148,732
Second Lien Anagram Notes – due 2026	93,613	—	144,576	144,576
Finance lease obligations	12,295	12,295	—	12,295
Total debt	1,485,907	1,286,845	293,308	1,580,153
Less: Cash	(39,237)	(12,952)	(26,285)	(39,237)
Total debt net of cash	\$ 1,446,670	\$ 1,273,893	\$ 267,023	\$ 1,540,916

*Balance consists of ABL Facility.

Outlook

	FY 2022 Outlook
Net Sales	\$2.150 to \$2.225 billion
Brand Comparable Sales	-4% to -1%
Adjusted EBITDA*	\$170 to \$200 million
GAAP Net Income	(\$36) to (\$10) million
Capital Expenditures	\$95 to \$105 million or \$65 to \$75 million net of tenant improvement allowances
NXT Gen Store count	85 to 100 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)

	Three Months Ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Net income	\$ 162,173	\$ 29,811	\$ 135,284	\$ 15,693
Interest expense, net	24,184	23,116	47,579	40,330
Income tax (benefit) expense	(173,891)	10,209	(190,246)	6,740
Depreciation and amortization	15,746	16,916	31,606	34,860
EBITDA	28,212	80,052	24,223	97,623
Inventory restructuring and early lease terminations (f)	—	3,499	—	6,637
Other restructuring, retention and severance (a)	710	31	710	2,082
Long-lived assets impairment (b)	7,829	—	9,983	—
Deferred rent (c)	3,856	(398)	6,381	1,128
Closed store expense (d)	1,721	1,543	2,708	3,136
Foreign currency (gains), net	(247)	(772)	(528)	(1,311)
Stock-based compensation - employee**	2,217	1,680	3,929	2,962
Undistributed loss in equity method investments	(1,686)	(547)	(1,376)	(211)
Non-recurring legal settlements/costs	384	—	384	—
Gain on sale of property, plant and equipment	47	—	(72)	111
COVID - 19 (e)	—	655	—	1,270
Inventory disposal reserve	810	—	1,431	—
Loss on sale of business	—	—	—	3,211
Net loss on debt repayment (g)	—	—	—	226
Other	1,953	90	2,637	1,388
Adjusted EBITDA	\$ 45,806	\$ 85,833	\$ 50,410	\$ 118,252
Adjusted EBITDA Margin	8.7%	16.0%	5.2%	12.3%

** 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)

	June 30, 2022 GAAP Basis (as reported)	Three Months Ended June 30, 2022 EBITDA Adjustments								June 30, 2022 Non-GAAP basis	
		Long-lived assets impairment (b)	Inventory disposal reserve	Legal	Stock-based compensation - employee**	Deferred rent (c)	Other restructuring, retention and severance (a)	Closed store expense (d)	Foreign currency (gains), net		Other
Net sales	\$ 527,449										\$ 527,449
Cost of sales	349,477		(810)			(2,180)					346,487
Gross profit	177,972										180,962
Selling, General and administrative expenses**	167,306	(7,829)		(384)	(2,217)	(1,676)	(710)	(1,721)		(1,572)	151,197
Income from operations	10,666										29,765
Interest expense, net	24,184									(376)	23,808
Other (income) expense, net	(1,800)								247	1,634	81
(Loss) income before income taxes	(11,718)										5,876
Interest expense, net	24,184										24,184
Depreciation and amortization	15,746										15,746
EBITDA	28,212										45,806
Adjustments to EBITDA	17,594	(7,829)	(810)	(384)	(2,217)	(3,856)	(710)	(1,721)	247	(314)	—
Adjusted EBITDA	\$ 45,806	\$ (7,829)	\$ (810)	\$ (384)	\$ (2,217)	\$ (3,856)	\$ (710)	\$ (1,721)	\$ 247	\$ (314)	\$ 45,806

** 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. 2022 includes impairment charges.

	June 30, 2021 GAAP Basis (as reported)	Three Months Ended June 30, 2021 EBITDA Adjustments								June 30, 2021 Non-GAAP basis	
		Long-lived assets impairment (b)	Inventory restructuring and early lease terminations (f)	Stock-based compensation - employee**	Deferred rent (c)	Other restructuring, retention and severance (a)	Closed store expense (d)	COVID - 19 (e)	Foreign currency (gains), net		Other
Net sales	\$ 535,746										\$ 535,746
Cost of sales	318,574		(2,312)								316,262
Gross profit	217,172										219,484
Selling, General and administrative expenses**	155,336		(1,187)	(1,680)	398	(31)	(1,543)	(655)		(39)	150,599
(Loss) from operations	61,836										68,885
Interest expense, net	23,116									(51)	23,065
Other (income) expense, net	(1,300)								772	547	19
Income (loss) before income taxes	40,020										45,801
Interest expense, net	23,116										23,116
Depreciation and amortization	16,916										16,916
EBITDA	80,052										85,833
Adjustments to EBITDA	5,781	—	(3,499)	(1,680)	398	(31)	(1,543)	(655)	772	457	—
Adjusted EBITDA	\$ 85,833	\$ —	\$ (3,499)	\$ (1,680)	\$ 398	\$ (31)	\$ (1,543)	\$ (655)	\$ 772	\$ 457	\$ 85,833

** 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 June 30,		Six months ended June 30,	
	2022	2021	2022	2021
(Dollars in thousands, except per share amounts)				
(Loss) income before income taxes	\$ (11,718)	\$ 40,020	\$ (54,962)	\$ 22,433
Intangible asset amortization	1,528	2,354	3,072	4,831
Amortization of deferred financing costs and original issuance discounts	1,295	1,074	2,566	1,937
Other restructuring, retention and severance (a)	710	31	710	1,967
Long-lived assets impairment (b)	7,829	—	9,983	—
Non-recurring legal settlements/costs	384	—	384	—
Stock option expense	83	104	168	217
Restricted stock unit and restricted cash awards expense – performance-based	744	1,154	1,313	1,971
COVID - 19 (e)	—	655	—	1,270
Loss on sale of business	—	—	—	3,211
Inventory disposal reserve	810	162	1,431	926
Adjusted income (loss) before income taxes	1,665	45,554	(35,335)	38,763
Adjusted income tax (benefit) expense (h)	(9,841)	11,446	(22,162)	10,064
Adjusted net income (loss)	\$ 11,506	\$ 34,108	\$ (13,173)	\$ 28,699
Adjusted net income (loss) per common share – diluted	\$ 0.10	\$ 0.29	\$ (0.12)	\$ 0.25
Weighted-average number of common shares – diluted	114,604,275	116,251,151	112,519,950	115,499,304

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	\$ (36,000)	\$ (10,000)
Income tax	12,000	16,000
Interest expense	99,000	99,000
Depreciation and Amortization Expense	68,000	68,000
GAAP EBITDA	\$ 143,000	\$ 173,000
EBITDA Add-Backs	27,000	27,000
Adjusted EBITDA	\$ 170,000	\$ 200,000

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 three months ended June 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) 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.