SOLO BRANDS, INC.
Non-GAAP Financial Measures

We report our financial results in accordance with GAAP; however, management believes that certain non-GAAP financial measures provide users of our financial information with useful supplemental information that enables a better comparison of our performance across periods. We use adjusted gross profit, adjusted gross profit margin, free cash flow, adjusted net income, adjusted EPS, adjusted EBITDA and adjusted EBITDA margin non-GAAP financial measures, because we believe they are useful indicators of our operating performance. Our management uses these non-GAAP measures principally as measures of our operating performance and believes that these non-GAAP measures are useful to our investors because they are frequently used by securities analysts, investors and other interested parties in their evaluation of the operating performance of companies in industries similar to ours. Our management also uses these non-GAAP measures for planning purposes, including the preparation of our annual operating budget and financial projections.

None of these non-GAAP measures is a measurement of financial performance under GAAP. These non-GAAP measures should not be considered in isolation or as a substitute for a measure of our liquidity or operating performance prepared in accordance with GAAP and are not indicative of net income (loss) from continuing operations as determined under U.S. GAAP. In addition, the exclusion of certain gains or losses in the calculation of non-GAAP financial measures should not be construed as an inference that these items are unusual or infrequent as they may recur in the future, nor should it be construed that our future results will be unaffected by unusual or non-recurring items. These non-GAAP financial measures have limitations that should be considered before using these measures to evaluate our liquidity or financial performance. Some of these limitations are as follows.

These non-GAAP measures exclude certain tax payments that may require a reduction in cash available to us; do not reflect our cash expenditures, or future requirements, for capital expenditures (including capitalized software developmental costs) or contractual commitments; do not reflect changes in, or cash requirements for, our working capital needs; do not reflect the cash requirements necessary to service interest or principal payments on our debt; exclude certain purchase accounting adjustments related to acquisitions; and exclude equity-based compensation expense, which has recently been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy.

In addition, other companies may define and calculate similarly-titled non-GAAP financial measures differently than us, thereby limiting the usefulness of these non-GAAP financial measures as a comparative tool. Because of these and other limitations, you should consider our non-GAAP measures only as supplemental to other GAAP-based financial performance measures.

Adjusted Gross Profit and Adjusted Gross Profit Margin

We calculate adjusted gross profit as gross profit excluding the recognition of the fair value write-ups of inventory as a result of the Oru, ISLE, and Chubbies acquisitions. We calculate adjusted gross profit margin as adjusted gross profit divided by net sales.

Free Cash Flow

We calculate free cash flow as net cash provided by (used in) operating activities, less capital expenditures.

Adjusted Net Income

We calculate adjusted net income as net income (loss) excluding amortization of intangible assets; impairment charges; equity-based compensation expense; the following costs that are expected to be non-recurring in nature: tax refunds, transaction costs, acquisition-related costs, implementation costs, management transition costs, severance expense, inventory fair value write-ups, business optimization expenses, business expansion expenses, contract termination and modification fees, and changes in fair value of contingent earn-out liability; and the tax impact of these adjusting items.

Adjusted EPS

We calculate adjusted EPS as adjusted net income, as defined above, less the allocable portion of net income (loss) to the noncontrolling interest, divided by weighted average diluted shares or weighted average shares, respectively, as calculated under U.S. GAAP. While the net income is adjusted for the allocation of net income (loss) to the noncontrolling interest, the adjusting items noted above are added back in their entirety.

Adjusted EBITDA and Adjusted EBITDA Margin

We calculate adjusted EBITDA as net income (loss) before interest expense, income taxes, and depreciation and amortization expenses, impairment charges, equity-based compensation expense, and the following costs that are expected to be non-recurring in nature: tax refunds, transaction costs, acquisition-related costs, implementation costs, management transition costs, severance expense, inventory fair value write-ups, business optimization expenses, business expansion expenses, contract termination and modification fees, and changes in fair value of contingent earn-out liability. We calculate adjusted EBITDA margin as adjusted EBITDA divided by net sales.

SOLO BRANDS, INC.
Reconciliation of Non-GAAP Financial Information to GAAP
(Unaudited) (In thousands except per share amounts)

The following table reconciles gross profit to adjusted gross profit for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2023**	**2022**	**2023**	**2022**
Gross profit	**$ 68,259**	**$ 64,680**	**$ 205,733**	**$ 200,209**
Inventory fair value write-up(1)	—	—	—	7,813
Adjusted gross profit	**$ 68,259**	**$ 64,680**	**$ 205,733**	**$ 208,022**
Gross profit margin (Gross profit as a % of net sales)	61.9 %	63.3 %	62.4 %	62.5 %
Adjusted gross profit margin (Adjusted gross profit as a % of net sales)	61.9 %	63.3 %	62.4 %	64.9 %

(1) Represents the fair market value write-ups of inventory accounted for under ASC 805 related to the 2021 acquisitions.

The following table reconciles net cash (used in) provided by operating activities to free cash flow for the periods presented:

	Nine Months Ended September 30,	
(dollars in thousands)	**2023**	**2022**
Net cash (used in) provided by operating activities	**$ 39,164**	**$ (35,330)**
Capital expenditures	(6,943)	(7,512)
Free cash flow	**$ 32,221**	**$ (42,842)**

The following tables reconcile the non-GAAP financial measures to their most comparable GAAP measure for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2023	2022	2023	2022
Net income (loss)	**$ 3,083**	**$ (4,020)**	**$ 15,530**	**$ (27,128)**
Less: net income (loss) attributable to noncontrolling interests	(1,045)	(1,816)	3,054	(10,850)
Net income (loss) per Class A common stock (GAAP)	**$ 4,128**	**$ (2,204)**	**$ 12,476**	**$ (16,278)**
Amortization expense	5,744	5,261	16,263	15,748
Impairment charges[1]	—	—	—	30,589
Equity-based compensation expense[2]	4,964	4,326	14,766	13,213
Tax refunds[3]	—	—	(5,121)	—
Transaction costs[4]	213	849	1,494	1,070
Acquisition-related costs[5]	515	770	1,361	1,671
Implementation costs[6]	210	—	456	—
Management transition costs[7]	247	34	413	698
Severance expense	16	1,409	502	1,409
Inventory fair value write-ups[8]	—	—	—	7,813
Business optimization expense[9]	—	610	—	835
Business expansion expense[10]	—	225	—	373
Contract termination and modification fees[13]	4,317	—	4,317	—
Changes in fair value of contingent earn-out liability[14]	(2,242)	—	(2,242)	—
Tax impact of adjusting items[11]	(1,858)	(1,887)	(4,313)	(10,311)
Adjusted net income	**$ 15,209**	**$ 7,577**	**$ 43,426**	**$ 35,980**
Adjusted EPS[12]	**$ 0.28**	**$ 0.15**	**$ 0.66**	**$ 0.74**
(amounts per share)				
Net income (loss)	**$ 0.05**	**$ (0.06)**	**$ 0.25**	**$ (0.43)**
Less: net income (loss) attributable to non-controlling interests	**(0.02)**	**(0.03)**	**0.05**	**(0.17)**
Net income (loss) per Class A common stock (GAAP)	**$ 0.07**	**$ (0.03)**	**$ 0.20**	**$ (0.26)**
Amortization expense	0.10	0.08	0.27	0.25
Impairment charges[1]	—	—	—	0.48
Equity-based compensation expense[2]	0.09	0.07	0.24	0.21
Tax refunds[3]	—	—	(0.08)	—
Transaction costs[4]	—	0.01	0.02	0.02
Acquisition-related costs[5]	0.01	0.01	0.02	0.03
Implementation costs[6]	—	—	0.01	—
Management transition costs[7]	—	—	0.01	0.01
Severance expense	—	0.02	0.01	0.02
Inventory fair value write-ups[8]	—	—	—	0.12
Business optimization expense[9]	—	0.01	—	0.01
Business expansion expense[10]	—	0.01	—	0.01
Contract termination and modification fees[13]	0.08	—	0.07	—
Changes in fair value of contingent earn-out liability[14]	(0.04)	—	(0.04)	—
Tax impact of adjusting items[11]	(0.03)	(0.03)	(0.07)	(0.16)
Adjusted EPS[12]	**$ 0.28**	**$ 0.15**	**$ 0.66**	**$ 0.74**
Weighted-average Class A common stock outstanding - basic	**57,883**	**63,470**	**61,370**	**63,429**
Weighted-average Class A common stock outstanding - diluted	**58,368**	**63,470**	**61,581**	**63,429**

(dollars in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Net income (loss)	**$ 3,083**	**$ (4,020)**	**$ 15,530**	**$ (27,128)**
Interest expense	2,766	1,805	7,542	3,838
Income tax (benefit) expense	(6,191)	(980)	(3,272)	(3,677)
Depreciation and amortization expense	7,052	6,216	19,579	18,194
Impairment charges[1]	—	—	—	30,589
Equity-based compensation expense[2]	4,964	4,326	14,766	13,213
Tax refunds[3]	—	—	(5,121)	—
Transaction costs[4]	213	849	1,494	1,070
Acquisition-related costs[5]	515	770	1,361	1,671
Implementation costs[6]	210	—	456	—
Management transition costs[7]	247	34	413	698
Severance expense	16	1,409	502	1,409
Inventory fair value write-ups[8]	—	—	—	7,813
Business optimization expense[9]	—	610	—	835
Business expansion expense[10]	—	225	—	373
Contract termination and modification fees[13]	4,317	—	4,317	—
Changes in fair value of contingent earn-out liability[14]	(2,242)	—	(2,242)	—
Adjusted EBITDA	**$ 14,950**	**$ 11,244**	**$ 55,325**	**$ 48,898**
Net income (loss) margin (Net income (loss) as a % of net sales)	2.8 %	(3.9)%	4.7 %	(8.5)%
Adjusted EBITDA margin (Adjusted EBITDA as a % of net sales)	13.6 %	11.0 %	16.8 %	15.3 %

(1) Represents trademark and goodwill impairments recorded during the three months ended June 30, 2022.
(2) Represents employee compensation expense associated with equity-based awards. This includes expense associated with the incentive unit awards as well as awards issued on and subsequent to the IPO including options, restricted stock units and performance stock units.
(3) Represents a one-time tax refund related to COVID-19 era benefits.
(4) Represents transaction costs primarily related to professional service fees incurred in connection with the secondary offering and S-3 registration statement in the current periods and in connection with the IPO in the comparative periods.
(5) Represents expenses that are associated with acquisition activities, including financial diligence and legal fees.
(6) Represents consulting fees related to the Company's preparation for compliance with Section 404(b) of the Sarbanes-Oxley Act and enterprise performance management software implementation.
(7) Represents costs primarily related to recruiting senior level management
(8) Represents the recognition of fair market value write-ups of inventory accounted for under ASC 805 related to the 2021 acquisitions.
(9) Represents various start-up and transition costs, including warehouse optimization charges associated with our new global headquarters infrastructure and with new and expanded distribution facilities in Texas, Pennsylvania, and the Netherlands.
(10) Represents costs for expansion into new international and domestic markets.
(11) Represents the tax impact of adjustments calculated at the federal statutory rate of 21% less the portion of the tax impact of the adjustments attributable to noncontrolling interests.
(12) Adjusted earnings per share ("Adjusted EPS") is calculated independently for each component and, as such, the total of such components may not sum to adjusted EPS due to rounding.
(13) Includes one-time advertising spend contract termination fees with offsetting benefits expected to be fully realized by the end of 2023.
(14) Represents the charge to mark the contingent earn-out consideration to fair value in connection with the 2023 acquisitions.