

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

Current Report

**Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **July 8, 2020**

The Simply Good Foods Company

(Exact name of registrant as specified in its charter)



Delaware

(State or other jurisdiction of
incorporation or organization)

001-38115

(Commission File Number)

82-1038121

(I.R.S. Employer
Identification Number)

**1225 17th Street, Suite 1000
Denver, CO 80202**

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: **(303) 633-2840**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading symbol | Name of each exchange on which registered |
|------------------------------------------|----------------|-------------------------------------------|
| Common Stock, par value \$0.01 per share | SMPL | Nasdaq |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition.

On July 8, 2020, The Simply Good Foods Company, a Delaware corporation (the “Company”), reported its results for the third quarter ended May 30, 2020. The results are discussed in detail in the press release attached hereto as Exhibit 99.1. In addition, we have posted an investor presentation at www.thesimplygoodfoodscompany.com.

The information in this item, including Exhibit 99.1, is being furnished, not filed. Accordingly, the information in this item will not be incorporated by reference into any registration statement unless specifically identified therein as being incorporated by reference therein.

Certain statements made in Exhibit 99.1 are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by or include words such as “will”, “expect”, “intends” or other similar words, phrases or expressions. These forward-looking statements include the expected effects from the COVID-19 outbreak, statements regarding the integration of Quest, future plans for the Company, the estimated or anticipated future results and benefits of the Company’s future plans and operations, future capital structure, future opportunities for the Company, and other statements that are not historical facts. These statements are based on the current expectations of the Company’s management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties and the Company’s business and actual results may differ materially. These risks and uncertainties include, but are not limited to the effect of the COVID-19 outbreak on the Company’s business, suppliers (including its contract manufacturing and logistics suppliers), customers, consumers and employees along with disruptions or inefficiencies in the supply chain resulting from any effects of the COVID-19 outbreak; achieving the anticipated benefits of the Quest acquisition; difficulties and delays in achieving the synergies and cost savings in connection with the Quest acquisition; changes in the business environment in which the Company operates including general financial, economic, capital market, regulatory and political conditions affecting the Company and the industry in which the Company operates; changes in consumer preferences and purchasing habits; the Company’s ability to maintain adequate product inventory levels to timely supply customer orders; changes in taxes, tariffs, duties, governmental laws and regulations; the availability of or competition for other brands, assets or other opportunities for investment by the Company or to expand the Company’s business; competitive product and pricing activity; difficulties of managing growth profitably; the loss of one or more members of the Company’s or Quest’s management team; and other risk factors described from time to time in the Company’s Form 10-K, Form 10-Q, and Form 8-K reports (including all amendments to those reports) filed with the U.S. Securities and Exchange Commission from time to time. In addition, forward-looking statements provide the Company’s expectations, plans or forecasts of future events and views as of the date of this communication. Except as required by law, the Company undertakes no obligation to update such statements to reflect events or circumstances arising after such date, and cautions investors not to place undue reliance on any such forward-looking statements. These forward-looking statements should not be relied upon as representing the Company’s assessments as of any date subsequent to the date of this communication.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

| <u>Exhibit No.</u> | <u>Description</u> |
|----------------------|-----------------------------------------------------------------------------|
| 99.1 | Press Release dated July 8, 2020 |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document) |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 8, 2020

By: /s/ Todd E. Cunfer

Name: Todd E. Cunfer

Title: Chief Financial Officer

(Principal Financial Officer)



The Simply Good Foods Company Reports Fiscal Third Quarter 2020 Financial Results; Provides Full Fiscal Year 2020 Outlook

Denver, CO, July 8, 2020 - The Simply Good Foods Company (Nasdaq: SMPL) (“Simply Good Foods,” or the “Company”), a developer, marketer and seller of branded nutritional foods and snacking products, today reported financial results for the thirteen week period ended May 30, 2020. The Company completed the acquisition of Quest Nutrition, LLC (“Quest”) on November 7, 2019. The Company’s third quarter results include thirteen weeks of Quest results and about 29 weeks for the year-to-date period. Additionally, note that the Company’s reference to “legacy Atkins” in this press release encompasses Simply Goods Foods’ business excluding Quest.

“The impact of COVID-19 during our fiscal third quarter was unprecedented,” said Joseph E. Scalzo, President and Chief Executive Officer of Simply Good Foods. “Despite the challenges of working remotely, our employees performed admirably, adjusting to the evolving market changes while continuing to execute well against our plans. I want to thank our employees, suppliers and co-manufacturers for their commitment to our customers and consumers and operating at the highest standards during this challenging time.”

“Third quarter performance was impacted significantly by COVID-19 factors that resulted in changes in shopping and consumption behavior. Following a three week period of pantry loading by consumers in early March, subsequent movement restrictions resulted in lower on-the-go and away-from-home usage occasions for some of our products. Total Simply Good Foods third quarter net sales increased 54.2% driven by the Quest acquisition. Legacy Atkins net sales declined 8.3% as solid e-commerce growth, an increase of 125% versus last year, was offset by softness in measured channels. Quest net sales declined modestly versus the year ago period. Importantly, Adjusted EBITDA⁽¹⁾ increased 74.2% reflecting the inclusion of Quest. Notably, legacy Atkins profitability improved driven by a reduction in trade promotion, favorable supply chain costs and lower Selling and marketing and General and administrative expenses.”

“As at home confinement restrictions began to ease in May and into June, the beginning of our fourth quarter, marketplace trends of our brands in measured channels improved. Specifically, total Simply Good Foods retail takeaway for the four weeks ended June 28, 2020 was 2.2%, in U.S. measured channels, outpacing the nutritional snacking category. Assuming U.S. movement restrictions remain at the current level we anticipate full-year 2020 net sales of \$790-800 million and Adjusted EBITDA¹ of \$145-150 million. Recall, the fifty-third week in fiscal 2019 is about a 2 percentage point headwind to growth in 2020 and ERP implementation costs ramp-up in the fourth quarter. We’re encouraged by the improving retail takeaway trends and continue to manage the business effectively during these challenging times.”

Third Quarter 2020 Financial Highlights vs. Third Quarter 2019

- Net sales increased 54.2%, or \$75.6 million, to \$215.1 million
- Gross profit margin of 41.2%, an increase of 60 basis points
- Net income of \$16.4 million versus \$13.5 million
- Adjusted EBITDA⁽¹⁾ increased 74.2% to \$43.4 million, primarily related to the Quest acquisition
- Earnings per diluted share (“EPS”), \$0.17, an increase of \$0.01 per fully diluted share
- Adjusted Diluted EPS ⁽²⁾ of \$0.26 versus \$0.20

Net sales increased \$75.6 million, or 54.2%, to \$215.1 million. The Quest acquisition contributed 62.5% to net sales growth. Legacy Atkins volume declined 9.4% and net price realization, driven by lower levels of trade promotion, was a 1.1% percentage point benefit.

⁽¹⁾ Adjusted EBITDA is a non-GAAP financial measure. Please refer to “Reconciliation of Adjusted EBITDA” in this press release for an explanation and reconciliation of this non-GAAP financial measure.

⁽²⁾ Adjusted Diluted Earnings Per Share is a non-GAAP financial measure. The Company excludes acquisition related costs, such as business transaction costs, integration expense and depreciation and amortization expense in calculating Adjusted Diluted Earnings Per Share. Please refer to “Reconciliation of Adjusted Diluted Earnings Per Share” in this press release for an explanation and reconciliation of this non-GAAP financial measure.

Gross profit was \$88.6 million for the third quarter of 2020, an increase of \$32.0 million or 56.4%. The increase in gross profit was driven by the Quest acquisition, partially offset by the legacy Atkins net sales decline. Favorable legacy Atkins trade promotions and lower input costs drove gross margin expansion of 60 basis points.

In the third quarter of 2020 the Company reported net income of \$16.4 million, an increase of \$2.9 million versus the comparable period of 2019. The increase in gross profit was partially offset by a 39.7% increase in selling and marketing expenses due to the inclusion of Quest. Legacy Atkins selling and marketing expense declined 10%. Additionally, general and administrative expenses increased \$12.8 million as a result of the inclusion of Quest, integration expenses of \$4.1 million and restructuring costs of \$1.4 million. Legacy Atkins general and administrative expenses declined about 20% primarily due to lower incentive compensation.

Interest expense increased \$4.9 million due to an increase in the principal amount of the Company's term loan related to the financing for the Quest acquisition.

Adjusted EBITDA⁽¹⁾, a non-GAAP financial measure used by the Company that makes certain adjustments to net income calculated under GAAP, increased 74.2% to \$43.4 million, primarily related to the Quest acquisition.

Adjusted Diluted Earnings Per Share⁽²⁾, a non-GAAP financial measure used by the Company that makes certain adjustments to diluted earnings per share calculated under GAAP, was \$0.26 versus \$0.20 in the year ago period.

Year-to-Date Third Quarter 2020 Financial Highlights vs. Year-to-Date Third Quarter 2019

- Net sales increased 54.7%, or \$210.2 million, to \$594.4 million
- Gross profit margin of 39.7%, a decrease of 150 basis points
 - Includes a non-cash \$7.5 million inventory purchase accounting step-up adjustment related to the Quest acquisition
- Income tax expense was \$8.2 million versus \$13.2 million
- Net income decreased \$19.2 million to \$22.3 million
- Adjusted EBITDA⁽¹⁾ increased 56.8% to \$116.9 million, primarily related to the Quest acquisition
- Earnings per diluted share ("EPS"), \$0.23, a decrease of \$0.26 per fully diluted share
- Adjusted Diluted EPS ⁽²⁾ of \$0.71, an increase of \$0.11 per fully diluted share

Net sales increased \$210.2 million, or 54.7%, to \$594.4 million. Quest was a 50.1% benefit to net sales growth. Legacy Atkins net sales increased 4.6%, driven by volume growth, partially offset by slightly higher trade promotions.

Gross profit was \$236.2 million for the year-to-date third quarter of 2020, an increase of \$78.0 million or 49.3%. The increase in gross profit was driven by the Quest Acquisition and legacy Atkins sales growth, partially offset by a non-cash \$7.5 million inventory purchase accounting step-up adjustment related to the Quest Acquisition. As a result, gross profit margin was 39.7%, a 150 basis point decline versus last year. The non-cash inventory purchase accounting step-up adversely affected gross margin by 130 basis points.

Net income was \$22.3 million for the year-to-date third quarter of 2020, a decrease of \$19.2 million compared to net income of \$41.4 million for the comparable period of 2019. The decline was primarily due to costs related to the Quest acquisition. The increase in gross profit was primarily offset by:

- a 47.0% increase in selling and marketing expenses primarily due to the inclusion of Quest, and greater legacy Atkins advertising expense;
- a \$33.3 million increase in general and administrative expenses to \$75.0 million as a result of:
 - the inclusion of Quest;
 - integration expenses of \$9.4 million;
 - restructuring costs of \$1.4 million; and,
 - lower legacy Atkins general and administrative expenses, primarily due to lower incentive compensation;
- business transaction costs of \$26.9 million;
- higher interest expense of about \$13.8 million due to an increase in the principal amount of the Company's term loan related to the financing for the Quest acquisition.

Adjusted EBITDA⁽¹⁾, a non-GAAP financial measure used by the Company that makes certain adjustments to net income calculated under GAAP, increased 56.8% to \$116.9 million, primarily related to the Quest acquisition.

Adjusted Diluted Earnings Per Share⁽²⁾, a non-GAAP financial measure used by the Company that makes certain adjustments to diluted earnings per share calculated under GAAP, was \$0.71 versus \$0.60 in the year ago period.

Balance Sheet and Cash Flow

At the end of the fiscal third quarter 2020 weighted average total diluted shares outstanding were approximately 98.3 million versus approximately 86.0 million in the year ago period. The increase in the shares outstanding was due to the previously discussed common stock public offering on October 7, 2019.

As of May 30, 2020, the Company had cash and cash equivalents of \$111.1 million and the outstanding principal under the term loan was \$635.5 million. Subsequent to the end of the third quarter, the Company paid down the \$25.0 million that it borrowed under its revolving credit facility in March 2020. Therefore, at the end of June 2020 the Company's estimated cash and cash equivalents balance was about \$80.0 million.

Given the Company's cash balance and outstanding term loan balance at the end of the third quarter the Company is on track to achieving the targeted trailing twelve month Net Debt to Adjusted EBITDA⁽¹⁾ ratio of less than 3.75x by fiscal year-end August 2020.

Outlook

"The marketplace trends of our products have improved sequentially as movement restrictions eased during our fiscal third quarter and into the early parts of the fourth quarter. We believe the increase in consumption is due to increasing brand relevance among consumers, increased shopping trips and more on-the-go consumption. As retail takeaway trends improved we stepped-up marketing and merchandising investments in our brands in anticipation that the benefits of our products would become increasingly more relevant to our target consumers. Over the remainder of the fourth quarter and into fiscal 2021 we will position our business for long-term growth. We are confident that as home confinement eases in the U.S. snacking and meal replacement usage occasions will increase, our brand benefits of weight management and active nutrition will grow, and that shopping behavior will return to more normal patterns," Scalzo concluded.

Given the visibility the Company has over the remaining seven weeks of its fiscal year it is able to provide a full year 2020 outlook. Assuming U.S. movement restrictions remain at the current levels, the Company anticipates full-year 2020 net sales of \$790-800 million and Adjusted EBITDA⁽¹⁾ of \$145-150 million. Legacy Atkins net sales and Adjusted EBITDA⁽¹⁾ is expected to be about the same as the year ago period, including the headwind of a fifty-third week in fiscal year 2019. The Company estimates that the extra week included in fiscal year 2019 is a headwind to year-over-year comparisons of reported legacy Atkins net sales growth in fiscal 2020 of about 2 percentage points.

The Company anticipates 2020 Adjusted Diluted Earnings Per Share⁽²⁾⁽³⁾ to be in the range of \$0.86 to \$0.90 versus \$0.77 in 2019.

⁽³⁾The Company does not provide a forward-looking reconciliation of Adjusted Diluted Earnings Per Share to Earnings Per Share or Adjusted EBITDA to Net Income, the most directly comparable GAAP financial measures, expected for 2020, because we are unable to provide such a reconciliation without unreasonable effort due to the unavailability of reliable estimates for certain components of the respective reconciliations, including the timing of and amount of integration costs associated with the Quest acquisition, and the inherent difficulty of predicting what the changes in these components will be throughout the fiscal year. As these items may vary greatly between periods, we are unable to address the probable significance of the unavailable information, which could significantly affect our future financial results.

Conference Call and Webcast Information

The Company will host a conference call with members of the executive management team to discuss these results today, Wednesday, July 8, 2020 at 6:30 a.m. Mountain time (8:30 a.m. Eastern time). Investors interested in participating in the live call can dial 877-407-0792 from the U.S. and International callers can dial 201-689-8263.

In addition, the call and accompanying presentation slides will be broadcast live over the Internet hosted at the “Investor Relations” section of the Company’s website at <http://www.thesimplygoodfoodscompany.com>. A telephone replay will be available approximately two hours after the call concludes and will be available through Wednesday, July 22, 2020, by dialing 844-512-2921 from the U.S., or 412-317-6671 from international locations, and entering confirmation code 13705387.

About The Simply Good Foods Company

The Simply Good Foods Company (Nasdaq: SMPL), headquartered in Denver, Colorado, is a highly-focused food company with a product portfolio consisting primarily of nutrition bars, ready-to-drink shakes, sweet and salty snacks and confectionery products marketed under the Atkins®, Quest®, SimplyProtein® and Atkins Indulge® brand names. Simply Good Foods is poised to expand its wellness platform through innovation and organic growth along with investment opportunities in the snacking space and broader food category. Simply Good Foods aims to lead the nutritious snacking movement with trusted brands that offer a variety of convenient, innovative, great-tasting, better-for-you snacks and meal replacements. For more information, please <http://www.thesimplygoodfoodscompany.com>.

Forward Looking Statements

Certain statements made herein are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by or include words such as “will”, “expect”, “intends” or other similar words, phrases or expressions. These forward-looking statements include the expected effects from the COVID-19 outbreak, statements regarding the integration of Quest, future plans for the Company, the estimated or anticipated future results and benefits of the Company’s future plans and operations, future capital structure, future opportunities for the Company, and other statements that are not historical facts. These statements are based on the current expectations of the Company’s management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties and the Company’s business and actual results may differ materially. These risks and uncertainties include, but are not limited to the effect of the COVID-19 outbreak on the Company’s business, suppliers (including its contract manufacturing and logistics suppliers), customers, consumers and employees along with disruptions or inefficiencies in the supply chain resulting from any effects of the COVID-19 outbreak; achieving the anticipated benefits of the Quest acquisition; difficulties and delays in achieving the synergies and cost savings in connection with the Quest acquisition; changes in the business environment in which the Company operates including general financial, economic, capital market, regulatory and political conditions affecting the Company and the industry in which the Company operates; changes in consumer preferences and purchasing habits; the Company’s ability to maintain adequate product inventory levels to timely supply customer orders; changes in taxes, tariffs, duties, governmental laws and regulations; the availability of or competition for other brands, assets or other opportunities for investment by the Company or to expand the Company’s business; competitive product and pricing activity; difficulties of managing growth profitably; the loss of one or more members of the Company’s or Quest’s management team; and other risk factors described from time to time in the Company’s Form 10-K, Form 10-Q, and Form 8-K reports (including all amendments to those reports) filed with the U.S. Securities and Exchange Commission from time to time. In addition, forward-looking statements provide the Company’s expectations, plans or forecasts of future events and views as of the date of this communication. Except as required by law, the Company undertakes no obligation to update such statements to reflect events or circumstances arising after such date, and cautions investors not to place undue reliance on any such forward-looking statements. These forward-looking statements should not be relied upon as representing the Company’s assessments as of any date subsequent to the date of this communication.

Investor Contact

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The Simply Good Foods Company
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The Simply Good Foods Company and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited, dollars in thousands, except share data)

| | May 30, 2020 | August 31, 2019 |
|---------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 111,134 | \$ 266,341 |
| Accounts receivable, net | 64,440 | 44,240 |
| Inventories | 84,517 | 38,085 |
| Prepaid expenses | 4,662 | 2,882 |
| Other current assets | 16,387 | 6,059 |
| Total current assets | 281,140 | 357,607 |
| Long-term assets: | | |
| Property and equipment, net | 11,916 | 2,456 |
| Intangible assets, net | 1,145,516 | 306,139 |
| Goodwill | 567,658 | 471,427 |
| Other long-term assets | 33,914 | 4,021 |
| Total assets | \$ 2,040,144 | \$ 1,141,650 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 29,301 | \$ 15,730 |
| Accrued interest | 1,287 | 1,693 |
| Accrued expenses and other current liabilities | 31,914 | 29,933 |
| Current maturities of long-term debt | 25,268 | 676 |
| Total current liabilities | 87,770 | 48,032 |
| Long-term liabilities: | | |
| Long-term debt, less current maturities | 624,752 | 190,259 |
| Deferred income taxes | 87,758 | 65,383 |
| Other long-term liabilities | 24,215 | 532 |
| Total liabilities | 824,495 | 304,206 |
| See commitments and contingencies (Note 10) | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value, 100,000,000 shares authorized, none issued | — | — |
| Common stock, \$0.01 par value, 600,000,000 shares authorized, 95,476,860 and 81,973,284 issued at May 30, 2020 and August 31, 2019, respectively | 955 | 820 |
| Treasury stock, 98,234 and 98,234 shares at cost at May 30, 2020 and August 31, 2019, respectively | (2,145) | (2,145) |
| Additional paid-in-capital | 1,089,652 | 733,775 |
| Retained earnings | 128,103 | 105,830 |
| Accumulated other comprehensive loss | (916) | (836) |
| Total stockholders' equity | 1,215,649 | 837,444 |
| Total liabilities and stockholders' equity | \$ 2,040,144 | \$ 1,141,650 |

The Simply Good Foods Company and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited, dollars in thousands, except share data)

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|-----------------------------------------------------------------------|----------------------|--------------|-------------------------|--------------|
| | May 30, 2020 | May 25, 2019 | May 30, 2020 | May 25, 2019 |
| Net sales | \$ 215,101 | \$ 139,468 | \$ 594,355 | \$ 384,199 |
| Cost of goods sold | 126,475 | 82,811 | 358,129 | 225,967 |
| Gross profit | 88,626 | 56,657 | 236,226 | 158,232 |
| Operating expenses: | | | | |
| Selling and marketing | 24,510 | 17,550 | 69,985 | 47,598 |
| General and administrative | 28,713 | 15,947 | 74,961 | 41,677 |
| Depreciation and amortization | 4,248 | 1,892 | 10,988 | 5,643 |
| Business transaction costs | 47 | 758 | 26,900 | 2,087 |
| Loss in fair value change of contingent consideration - TRA liability | — | — | — | 533 |
| Total operating expenses | 57,518 | 36,147 | 182,834 | 97,538 |
| | | | | |
| Income from operations | 31,108 | 20,510 | 53,392 | 60,694 |
| Other (expense) income: | | | | |
| Interest income | 29 | 1,066 | 1,493 | 2,731 |
| Interest expense | (8,324) | (3,428) | (23,882) | (10,033) |
| Gain on settlement of TRA liability | — | — | — | 1,534 |
| Loss on foreign currency transactions | (418) | (153) | (596) | (421) |
| Other income | 59 | 55 | 104 | 176 |
| Total other expense | (8,654) | (2,460) | (22,881) | (6,013) |
| | | | | |
| Income before income taxes | 22,454 | 18,050 | 30,511 | 54,681 |
| Income tax expense | 6,045 | 4,584 | 8,238 | 13,236 |
| Net income | \$ 16,409 | \$ 13,466 | \$ 22,273 | \$ 41,445 |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustments | 61 | (254) | (80) | (291) |
| Comprehensive income | \$ 16,470 | \$ 13,212 | \$ 22,193 | \$ 41,154 |
| | | | | |
| Earnings per share from net income: | | | | |
| Basic | \$ 0.17 | \$ 0.16 | \$ 0.24 | \$ 0.52 |
| Diluted | \$ 0.17 | \$ 0.16 | \$ 0.23 | \$ 0.49 |
| Weighted average shares outstanding: | | | | |
| Basic | 95,378,495 | 81,898,276 | 93,475,539 | 80,362,978 |
| Diluted | 98,322,316 | 85,962,151 | 97,933,550 | 84,695,703 |

The Simply Good Foods Company and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited, dollars in thousands)

Thirty-Nine Weeks Ended

| | May 30, 2020 | May 25, 2019 |
|-----------------------------------------------------------------------------------|-------------------|-------------------|
| Operating activities | | |
| Net income | \$ 22,273 | \$ 41,445 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 11,607 | 5,754 |
| Amortization of deferred financing costs and debt discount | 2,312 | 1,001 |
| Stock compensation expense | 5,945 | 3,922 |
| Loss on fair value change of contingent consideration - TRA liability | — | 533 |
| Gain on settlement of TRA liability | — | (1,534) |
| Unrealized (gain) loss on foreign currency transactions | 596 | 421 |
| Deferred income taxes | 8,055 | 9,841 |
| Loss on disposal of property and equipment | — | 6 |
| Amortization of operating lease right-of-use asset | 2,702 | — |
| Other | 229 | — |
| Changes in operating assets and liabilities, net of acquisition: | | |
| Accounts receivable, net | 6,407 | (6,388) |
| Inventories | (2,636) | (11,700) |
| Prepaid expenses | (351) | (1,258) |
| Other current assets | (7,865) | (253) |
| Accounts payable | (11,561) | 6,284 |
| Accrued interest | (406) | 896 |
| Accrued expenses and other current liabilities | (10,496) | 3,698 |
| Other assets and liabilities | (2,711) | (39) |
| Net cash provided by operating activities | <u>24,100</u> | <u>52,629</u> |
| Investing activities | | |
| Purchases of property and equipment | (766) | (777) |
| Issuance of note receivable | (1,250) | — |
| Acquisition of business, net of cash acquired | (982,084) | — |
| Investments in intangible assets | (206) | — |
| Net cash used in investing activities | <u>(984,306)</u> | <u>(777)</u> |
| Financing activities | | |
| Proceeds from option exercises | 931 | 518 |
| Tax payments related to issuance of restricted stock units | (84) | (9) |
| Payments on finance lease obligations | (272) | — |
| Cash received from warrant exercises | — | 113,464 |
| Repurchase of common stock | — | (1,664) |
| Settlement of TRA liability | — | (26,468) |
| Principal payments of long-term debt | (21,000) | (1,500) |
| Proceeds from issuance of common stock | 352,542 | — |
| Equity issuance costs | (3,323) | — |
| Proceeds from issuance of long-term debt | 460,000 | — |
| Proceeds from Revolving Credit Facility | 25,000 | — |
| Deferred financing costs | (8,208) | — |
| Net cash provided by financing activities | <u>805,586</u> | <u>84,341</u> |
| Cash and cash equivalents | | |
| Net (decrease) increase in cash | (154,620) | 136,193 |
| Effect of exchange rate on cash | (587) | (546) |
| Cash at beginning of period | 266,341 | 111,971 |
| Cash and cash equivalents at end of period | <u>\$ 111,134</u> | <u>\$ 247,618</u> |

Reconciliation of Adjusted EBITDA

Adjusted EBITDA. Adjusted EBITDA is a non-GAAP financial measure commonly used in our industry and should not be construed as an alternative to net (loss) income as an indicator of operating performance or as an alternative to cash flow provided by operating activities as a measure of liquidity (each as determined in accordance with GAAP). Simply Good Foods defines Adjusted EBITDA (earnings before interest, tax, depreciation, and amortization) as net (loss) income before interest income, interest expense, income tax expense (benefit), depreciation and amortization with further adjustments to exclude the following items: business transaction costs, stock-based compensation expense, inventory step-up, integration costs, non-core legal costs, loss in fair value change of contingent consideration - TRA liability, gain on settlement of TRA liability and other non-core expenses. The Company believes that the inclusion of these supplementary adjustments in presenting Adjusted EBITDA, when used in conjunction with net (loss) income, are appropriate to provide additional information to investors, reflects more accurately operating results of the on-going operations, enhances the overall understanding of past financial performance and future prospects and allows for greater transparency with respect to the key metrics the Company uses in its financial and operational decision making. The Company also believes that Adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in its industry. Adjusted EBITDA may not be comparable to other similarly titled captions of other companies due to differences in the non-GAAP calculation.

The following unaudited tables below provide a reconciliation of Adjusted EBITDA to its most directly comparable GAAP measure, which is net income, for the thirteen and thirty-nine weeks ended May 30, 2020 and May 25, 2019:

| Adjusted EBITDA Reconciliation: (in thousands) | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|-----------------------------------------------------------------------|----------------------|--------------|-------------------------|--------------|
| | May 30, 2020 | May 25, 2019 | May 30, 2020 | May 25, 2019 |
| Net income | \$ 16,409 | \$ 13,466 | \$ 22,273 | \$ 41,445 |
| Interest income | (29) | (1,066) | (1,493) | (2,731) |
| Interest expense | 8,324 | 3,428 | 23,882 | 10,033 |
| Income tax expense | 6,045 | 4,584 | 8,238 | 13,236 |
| Depreciation and amortization | 4,488 | 1,929 | 11,607 | 5,754 |
| EBITDA | 35,237 | 22,341 | 64,507 | 67,737 |
| Business transaction costs | 47 | 758 | 26,900 | 2,087 |
| Stock-based compensation expense | 2,150 | 1,444 | 5,945 | 3,922 |
| Inventory step-up | — | — | 7,522 | — |
| Integration of Quest | 4,094 | — | 9,435 | — |
| Restructuring | 1,386 | — | 1,386 | 22 |
| Non-core legal costs | 48 | 179 | 603 | 1,330 |
| Loss in fair value change of contingent consideration - TRA liability | — | — | — | 533 |
| Gain on settlement of TRA liability | — | — | — | (1,534) |
| Other ⁽¹⁾ | 401 | 171 | 591 | 459 |
| Adjusted EBITDA | \$ 43,363 | \$ 24,893 | \$ 116,889 | \$ 74,556 |

⁽¹⁾ Other items consist principally of exchange impact of foreign currency transactions and other expenses.

Reconciliation of Adjusted Diluted Earnings Per Share

Adjusted Diluted Earnings per Share. Adjusted Diluted Earnings per Share is a non-GAAP financial measure commonly used in our industry and should not be construed as an alternative to diluted earnings per share as an indicator of operating performance. Simply Good Foods defines Adjusted Diluted Earnings Per Share as diluted earnings (loss) per share before depreciation and amortization, business transaction costs, stock-based compensation expense, inventory step-up, integration costs, non-core legal costs, change in fair value of contingent consideration - TRA liability, gain on settlement of TRA liability and other non-core expenses, on a theoretical tax effected basis of such adjustments at an assumed statutory rate. The Company believes that the inclusion of these supplementary adjustments in presenting Adjusted Diluted Earnings per Share, when used in conjunction with diluted earnings per share, are appropriate to provide additional information to investors, reflects more accurately operating results of the on-going operations, enhances the overall understanding of past financial performance and future prospects and allows for greater transparency with respect to the key metrics the Company uses in its financial and operational decision making. The Company also believes that Adjusted Diluted Earnings per Share is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in its industry. Adjusted Diluted Earnings per Share may not be comparable to other similarly titled captions of other companies due to differences in the non-GAAP calculation.

The following unaudited tables below provide a reconciliation of Adjusted Diluted Earnings Per Share to its most directly comparable GAAP measure, which is diluted earnings per share, for the thirteen and thirty-nine weeks ended May 30, 2020 and May 25, 2019, and fifty three weeks ended August 31, 2019:

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | | 53-Weeks Ended |
|------------------------------------------------------------------------------|----------------------|--------------|-------------------------|--------------|-----------------|
| | May 30, 2020 | May 25, 2019 | May 30, 2020 | May 25, 2019 | August 31, 2019 |
| Diluted earnings per share | \$ 0.17 | \$ 0.16 | \$ 0.23 | \$ 0.49 | \$ 0.56 |
| Depreciation and amortization | 0.03 | 0.02 | 0.09 | 0.05 | 0.07 |
| Business transaction costs | — | 0.01 | 0.20 | 0.02 | 0.06 |
| Stock-based compensation expense | 0.02 | 0.01 | 0.04 | 0.04 | 0.05 |
| Inventory step-up | — | — | 0.06 | — | — |
| Integration of Quest | 0.03 | — | 0.07 | — | — |
| Restructuring | 0.01 | — | 0.01 | — | — |
| Non-core legal costs | — | — | — | 0.01 | 0.04 |
| Loss (gain) in fair value change of contingent consideration - TRA liability | — | — | — | — | — |
| Gain on settlement of TRA liability | — | — | — | (0.01) | (0.01) |
| Other ⁽¹⁾ | — | — | — | — | — |
| Rounding ⁽²⁾ | — | — | 0.01 | — | — |
| Adjusted diluted earnings per share | \$ 0.26 | \$ 0.20 | \$ 0.71 | \$ 0.60 | \$ 0.77 |

⁽¹⁾ Other items consist principally of exchange impact of foreign currency transactions and other expenses.

⁽²⁾ Adjusted Diluted Earnings Per Share amounts are computed independently for each quarter. Therefore, the sum of the quarterly Adjusted Diluted Earnings Per Share amounts may not equal the year to date Adjusted Diluted Earnings Per Share amounts due to rounding.