DPW Holdings Reports Second Quarter Financial Results

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NEWPORT BEACH, Calif.--(BUSINESS WIRE)-- DPW Holdings, Inc. (NYSE American: DPW), a diversified holding company ("**DPW**" or the "**Company**"), today reported financial results for its second quarter, the three-month period ended June 30, 2019 on its Form 10-Q with the Securities and Exchange Commission.

Highlights

- First half revenues up 3.5% from prior year period
- First half gross profit up 22.7% from prior year period
- Q2 2019 realizes a $3.3 million improvement in interest income (expense)
    - Q2 2019 interest income, net of $379,000
    - Q2 2018 interest expense, net of $2.9 million
- Q2 2019 resulted in a $2.8 million or 41% improvement in bottom-line results primarily due to lower interest expense
- Current liabilities, excluding operating lease liabilities which were recorded on January 1, 2019 upon adoption of new accounting standards, reduced by $4.7 million or 13% from year-end 2018

Revenues

Although revenues increased by 3.5% for the six months ended June 30, 2019 as compared to the six months ended June 30, 2018, our revenues decreased by $1,295,767, or 17.4%, to $6,148,067 for the three months ended June 30, 2019, from $7,443,834 for the three months ended June 30, 2018. Further, during the year ended December 31, 2018 we acquired 98.1% of the outstanding equity interests of I.AM and all the equity securities of Enertec. During the three months ended June 30, 2019 and 2018, these acquisitions represented $3,336,783 and $1,720.362, respectively, of our revenues. Excluding revenues from these acquisitions, we would have recognized revenues of $2,811,284 and $5,723,472, respectively, during the three months ended June 30, 2019 and 2018, a decrease of $2,912,188. The decrease of $2,912,188 from the three months ended June 30, 2018, was primarily due to a decrease in revenue from the manufacture of the Multiplex Laser Surface Enhancement ("MLSE") plasma-laser system and from our cryptocurrency mining operations and, to a lesser extent, a decrease in revenue from customized solutions for the military markets caused by shortages in components required for the manufacture of these solutions. The following table shows revenue for the three months ended June 30, 2019 and 2018 generated from acquisitions completed during the year ended December 31, 2018.

		For the Three Months Ended June 30,	
Company acquired	**Date of Acquisition**	**2019**	**2018**

Enertec Systems 2001 Ltd.	May 22, 2018	$2,175,651	$1,217,870
I.AM, Inc.	May 23, 2018	1,161,132	502,492
		$3,336,783	$1,720,362

Revenues, cryptocurrency mining

In January 2018, we formed Digital Farms, Inc. (“Digital Farms”), a wholly-owned subsidiary formerly known as Super Crypto Mining, Inc. Digital Farms was established to operate our cryptocurrency business, which is pursuing a variety of digital currencies. We are mining the top three cryptocurrencies for our own account, consisting of Bitcoin, Litecoin and Ethereum. The market prices of digital currencies were lower during the three months ended June 30, 2019 compared to the prior-year period; as a result we curtailed our mining operations, which resulted in a decrease in revenues of $462,641. Compared to the three months ended March 31, 2019, revenues from crypto-mining increased $227,312 or 789%.

Revenues, related party

During the three months ended June 30, 2018, we recognized $1,765,875 in revenues from our purchase order with MTIX Limited, a company formed under the laws of England and Wales (“MTIX”). Due to working capital constraints, we did not recognize any revenues from MTIX during the three months ended June 30, 2019. MTIX was acquired by AVLP on August 22, 2017 and is therefore a related party. In March 2017, the Company was awarded a purchase order by MTIX to manufacture, install and service MLSE plasma-laser systems. Over the next several years, management believes that the MLSE purchase order will be a source of revenue and generate significant cash flows. The lack of revenue during the three months ended June 30, 2019, was due to an emphasis on reducing the debt obligations incurred in May 2018 to acquire Enertec. Payments, and the related manufacturing services, that otherwise would have gone to subcontractors of the MLSE plasma-laser system have been delayed in order to enable us to restructure and reduce our overall debt obligations.

Gross Margins

Gross margins increased to 25.4% for the three months ended June 30, 2019 compared to 18.3% for the three months ended June 30, 2018. The Company’s gross margins have typically ranged between 33% and 37%, with slight variations depending on the overall composition of our revenue. Our gross margins during the three months ended June 30, 2018, of 18.3%, were affected by the lower margin related party revenue of $1,765,875 from MTIX combined with negative margins on revenues of $718,757 at Digital Farms. The negative gross margins at Digital Farms resulted from monthly recurring fixed costs at our colocation facilities which temporarily exceed the revenues from our mining operations. Excluding the effects of Digital Farms and our contract with MTIX, then our adjusted gross margins for the three months ended June 30, 2018, would have been 36.8%.

Our gross margin of 25.4% recognized during the three months ended June 30, 2019, was also impacted by the negative margins at Digital Farms. Excluding the effects of Digital Farms, our adjusted gross margin for the three months ended June 30, 2019, would have been 37.4%. which is consistent with our historical average.

The Company also reported that its order backlog was $73.6 million, including $46 million of related party backlog (related-party backlog is delinquent in the production schedule), Digital Power Corp. which includes Power-Plus Technical Distributors, LLC and Digital Power, Ltd. (aka "Gresham Power") with an order backlog of $5.1M while Microphase posted an order backlog of $8.7M as Enertec reduced its order backlog to $13.8M. The Company was pleased that Enertec continues to improve its order delivery and reduce its order backlog.

General and Administrative

General and administrative expenses were $4,634,151 for the three months ended June 30, 2019, compared to $4,387,974 for the three months ended June 30, 2018, an increase of $246,177. Our acquisitions of Enertec and I.AM represented an increase in general and administrative expenses for $1,018,295. Excluding the impact of acquisitions, general and administrative expenses decreased by $772,118 from the comparative prior period, mainly due to lower stock compensation expense and legal fees partially offset by an increase in cost attributed to the hiring of a Chief Accounting Officer and Senior Vice President of Finance. The remaining increase in general and administrative expenses is due to various costs, none of which are significant individually.

Operating Loss

The Company recorded an operating loss of $3,968,188 for the three months ended June 30, 2019, compared to an operating loss of $4,099,024 for the three months ended June 30, 2018. The decrease in operating loss is mostly attributable higher gross profit and lower selling and marketing expenses, partially offset by an increase in general and administrative expenses.

Interest Income

Interest income was $911,537 for the three months ended June 30, 2019 compared to $603,519 for the three months ended June 30, 2018. The increase in interest income for the three months ended June 30, 2019 is primarily related to an increase in interest income pursuant to the Loan and Security Agreement entered into on September 6, 2017, with AVLP, a related party.

Interest Expense

Interest expense was $532,255 for the three months ended June 30, 2019 compared to $3,490,310 for the three months ended June 30, 2018. The decrease in interest expense for the three months ended June 30, 2019 is primarily related to a reduction of amortization of debt discount resulting from original issue discount from the issuance of warrants in conjunction with the sale of debt instruments. During the three months ended June 30, 2019 and 2018, as a result of these issuances, non-cash interest expense of $185,544 and $2,727,960, respectively, was recorded from the amortization of debt discount and debt financing costs.

Loss on issuance of warrants

We recognized a loss on issuance of warrants of $1,763,481 for the three months ended June 30, 2019, based upon the fair value of the warrants issued in our April public offering (the "Offering") in excess of the proceeds received from the Offering. The loss on issuance is a non-cash charge and in no event will we be required to make cash payments to the warrantholders upon settlement of the warrants.

Change in fair value of warrant liability

During the three months ended June 30, 2019, the fair value of the warrants that were issued in our Offering decreased by $946,825. The fair value of these warrants is re-measured at each financial reporting period and immediately before exercise, with any changes in fair value recorded as change in fair value of warrant liability in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

Geographic Segment Reporting

We conduct operations in several geographical markets and for three-month period-ended June 30, 2019 and 2018. Other than as shown, no foreign country or region contributed materially to revenues or long-lived assets for these periods:

For the three-month periods ended June 30:

	2019	**2018**
Revenues:		
North America	$ 3,320,231	$ 5,613,714
Middle East	2,175,651	1,217,870
Europe	481,566	377,933
Other	170,619	234,317
Total revenues	$ 6,148,067	$ 7,443,834

During the three months ended June 30, 2019 and 2018, our reported net loss included non-cash charges of $1,908,433 and $4,332,708, respectively. A summary of these non-cash charges is as follows:

	For the Three Months Ended	
	June 30,	
	2019	**2018**
Interest expense – debt discount	$ 185,544	$ 2,727,960

Stock-based compensation	370,995	1,373,326
Depreciation and amortization	1,164,745	676,839
Amortization of right-of-use assets	29,124	—
Accretion of original issue discount on notes receivable – related party	(650,113)	(445,417)
Accretion of original issue discount on notes receivable	(8,518)	—
Fair value in excess of proceeds upon issuance of warrants	1,763,481	—
Change in fair value of warrant liability	(946,825)	—
Non-cash items included in net loss	$ 1,908,433	$ 4,332,708

DPW's CEO and Chairman, Milton "Todd" Ault, III said, "The first half of 2019 has been challenging as we targeted to reduce our short-term debt which has impacted our working capital. We have been successful by turning our net income expense into net interest income, now $379,282 instead of $2.9 million in expense. The Company has achieved a 41% improvement in our bottom-line results for this quarter and an increase in gross profit for the first half of 2019 compared to the first half of 2018. Stockholders won't see the benefit of our lowered cost of capital or proportional revenue from MTIX, Ltd. until the third quarter of 2019 at the earliest. For the remainder of 2019, we anticipate Digital Power Corp's. renewing the recognition of revenue from the MTIX, Ltd. MLSE contract and from our hospitality segment generating increasing revenues from I.AM due to drier, warmer weather in the seasons ahead. In summary, there are three important indicators that stockholders and investors should pay attention to: first, the reduction of outstanding debt; second, the continuing increase in sales; and thirdly, moderate growth in our backlog due to new customers and new orders."

Ault continued, "I would like to reiterate our mission. We are a growth company seeking to increase our revenues through acquisitions. We continually assess acquisition opportunities and are exploring acquisitions in the financial sector. Over the recent past, we have provided capital and relevant expertise to fuel the growth of businesses in defense/aerospace, industrial, telecommunications, medical, crypto-mining, textiles and a select portfolio of commercial hospitality properties. Through our lending subsidiary, DP Lending, we have launched an online fintech portal, MonthlyInterest.com, that facilitates investments that pay monthly interest. As a holding company, we have been developing DP Lending to enable the capacity to fund entrepreneurs, our subsidiaries and partner companies. We believe MonthlyInterest.com will provide investors the opportunity to invest directly into companies and technology that will have a global impact, bypassing traditional banking and lending institutions. As a holding company, our business strategy is designed to increase shareholder value. Under this strategy, we are focused on managing and financially supporting our existing subsidiaries and partner companies, with the goal of pursuing monetization opportunities and maximizing the value returned to shareholders. We have, are and will consider initiatives including, among others: public offerings, the sale of individual partner companies, the sale of certain or all partner company interests in secondary market transactions, or a combination thereof, as well as other opportunities to maximize shareholder value. We anticipate returning value to shareholders after satisfying our debt obligations and working capital needs."

For more information on DPW Holdings and its subsidiaries, the Company recommends that stockholders, investors and any other interested parties read the Company's public filings and press releases available under the Investor Relations section at www.DPWHoldings.com or available at www.sec.gov.

About DPW Holdings, Inc.

DPW Holdings, Inc. is a diversified holding company pursuing growth by acquiring undervalued businesses and disruptive technologies that provide a global impact. Through its wholly owned subsidiaries and strategic investments, the Company provides mission-critical products that support a diverse range of industries, including defense/aerospace, industrial, telecommunications, medical, crypto-mining, and textiles. In addition, the Company owns a select portfolio of commercial hospitality properties and extends credit to select entrepreneurial businesses through a licensed lending subsidiary. DPW's headquarters are located at 201 Shipyard Way, Suite E, Newport Beach, CA 92663; www.DPWHoldings.com.

Forward-Looking Statements

This press release contains "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements generally include statements that are predictive in nature and depend upon or refer to future events or conditions, and include words such as "believes," "plans," "anticipates," "projects," "estimates," "expects," "intends," "strategy," "future," "opportunity," "may," "will," "should," "could," "potential," or similar expressions. Statements that are not historical facts are forward-looking statements. Forward-looking statements are based on current beliefs and assumptions that are subject to risks and uncertainties. Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update any of them publicly in light of new information or future events. Actual results could differ materially from those contained in any forward-looking statement as a result of various factors. More information, including potential risk factors, that could affect the Company's business and financial results are included in the Company's filings with the SEC including, but not limited to, the Company's Forms 10-K, 10-Q and 8-K. All filings are available at www.sec.gov and on the Company's website at www.DPWHoldings.com.

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