

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-40828

a.k.a. Brands Holding Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

87-0970919

(I.R.S. Employer
Identification No.)

100 Montgomery Street, Suite 1600

San Francisco, California 94104

(Address of principal executive offices, including zip code)

415-295-6085

(Registrant's Telephone Number, Including Area Code)

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|-------------------|---|
| Common Stock, par value \$0.001 per share | AKA | New York Stock Exchange |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated Filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller Reporting Company | <input type="checkbox"/> |
| | | Emerging Growth Company | <input checked="" type="checkbox"/> |

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 5, 2022, the registrant had 128,654,935 shares of common stock outstanding.

a.k.a. BRANDS HOLDING CORP.
FORM 10-Q

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FORWARD-LOOKING STATEMENTS

All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations and financial position, or that describe our plans, goals, intentions, objectives, strategies, expectations, beliefs and assumptions, are forward-looking statements. The words “believe,” “may,” “might,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “project,” “plan,” “objective,” “could,” “would,” “should” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. We caution that the forward-looking statements in this Quarterly Report on Form 10-Q are subject to a number of known and unknown risks, uncertainties and assumptions that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Factors that could contribute to these differences include, among other things:

- the effects of the COVID-19 pandemic on our operations, customer demand, and our suppliers’ ability to meet our needs;
- rapidly-changing consumer preferences in the apparel, footwear and accessories industries;
- our failure to acquire new customers, retain existing customers, or maintain average order value levels;
- the effectiveness of our marketing and our level of customer traffic;
- merchandise return rates;
- our success in identifying brands to acquire, integrate and manage on our platform, and expansion into new markets;
- the global nature of our business;
- our use of social media platforms and influencer sponsorship initiatives;
- inherent challenges in measurement to which certain of our key operating metrics are subject;
- tax liabilities that may increase the costs our consumers would have to pay for our offerings;
- global geopolitical (such as the recent outbreak of hostilities between Russia and Ukraine), economic and market conditions beyond our control;
- fluctuations between non-U.S. currencies and the U.S. dollar;
- our ability to attract and retain highly qualified personnel;
- fluctuations in wage rates and the price, availability and quality of raw materials and finished goods;
- interruptions in or increased costs of shipping and distribution; and
- the other factors set forth under “Risk Factors.”

Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or changes in our expectations, unless otherwise required by law.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

a.k.a. BRANDS HOLDING CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)
(unaudited)

| | March 31, 2022 | December 31, 2021 |
|---|-------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 41,166 | \$ 38,832 |
| Restricted cash | 2,506 | 2,186 |
| Accounts receivable | 3,510 | 2,663 |
| Inventory, net | 120,598 | 115,783 |
| Prepaid income taxes | 6,525 | 4,059 |
| Prepaid expenses and other current assets | 22,705 | 20,809 |
| Total current assets | 197,010 | 184,332 |
| Property and equipment, net | 17,336 | 14,657 |
| Operating lease right-of-use assets | 42,490 | 26,415 |
| Intangible assets, net | 95,986 | 98,287 |
| Goodwill | 373,799 | 363,305 |
| Other assets | 1,006 | 850 |
| Total assets | \$ 727,627 | \$ 687,846 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 17,295 | \$ 25,088 |
| Accrued liabilities | 46,711 | 53,375 |
| Sales returns reserve | 5,176 | 6,887 |
| Deferred revenue | 8,676 | 11,344 |
| Operating lease liabilities, current | 6,544 | 5,721 |
| Current portion of long-term debt | 5,600 | 5,600 |
| Total current liabilities | 90,002 | 108,015 |
| Long-term debt | 126,901 | 103,182 |
| Operating lease liabilities | 37,361 | 21,370 |
| Other long-term liabilities | 1,409 | 1,333 |
| Deferred income taxes, net | 3,630 | 2,920 |
| Total liabilities | 259,303 | 236,820 |
| Commitments and contingencies (Note 15) | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value; 50,000,000 shares authorized; zero shares issued or outstanding | — | — |
| Common stock, \$0.001 par value; 500,000,000 shares authorized; 128,647,836 shares issued and outstanding | 129 | 129 |
| Additional paid-in capital | 455,175 | 453,807 |
| Accumulated other comprehensive income (loss) | 3,325 | (11,080) |
| Retained earnings | 9,695 | 8,170 |
| Total stockholders' equity | 468,324 | 451,026 |
| Total liabilities and stockholders' equity | \$ 727,627 | \$ 687,846 |

The accompanying notes are an integral part of these condensed consolidated financial statements

a.k.a. BRANDS HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share amounts)
(unaudited)

| | Three Months Ended March 31, | |
|--|------------------------------|------------|
| | 2022 | 2021 |
| Net sales | \$ 148,319 | \$ 68,779 |
| Cost of sales | 64,123 | 28,191 |
| Gross profit | 84,196 | 40,588 |
| Operating expenses: | | |
| Selling | 40,364 | 18,254 |
| Marketing | 15,705 | 6,224 |
| General and administrative | 24,778 | 13,430 |
| Total operating expenses | 80,847 | 37,908 |
| Income from operations | 3,349 | 2,680 |
| Other expense, net: | | |
| Interest expense | (1,259) | (104) |
| Other income (expense) | 88 | (19) |
| Total other expense, net | (1,171) | (123) |
| Income before income taxes | 2,178 | 2,557 |
| Provision for income taxes | (653) | (767) |
| Net income | 1,525 | 1,790 |
| Net income attributable to noncontrolling interests | — | (318) |
| Net income attributable to a.k.a. Brands Holding Corp. | \$ 1,525 | \$ 1,472 |
| Net income per share: | | |
| Basic | \$ 0.01 | \$ 0.02 |
| Diluted | \$ 0.01 | \$ 0.02 |
| Weighted average shares outstanding: | | |
| Basic | 128,647,836 | 69,931,635 |
| Diluted | 128,653,421 | 69,931,635 |

The accompanying notes are an integral part of these condensed consolidated financial statements

a.k.a. BRANDS HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------------|
| | 2022 | 2021 |
| Net income | \$ 1,525 | \$ 1,790 |
| Other comprehensive income (loss): | | |
| Currency translation | 14,405 | (5,418) |
| Total comprehensive income (loss) | 15,930 | (3,628) |
| Comprehensive loss attributable to noncontrolling interests | — | 1,656 |
| Comprehensive income (loss) attributable to a.k.a. Brands Holding Corp. | <u>\$ 15,930</u> | <u>\$ (1,972)</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements

a.k.a. BRANDS HOLDING CORP.
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY, PARTNERS' CAPITAL⁽¹⁾ AND REDEEMABLE
NONCONTROLLING INTEREST**
(in thousands, except share and unit data)
(unaudited)

| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Equity |
|--|--------------|--------|----------------------------------|--|----------------------|--------------|
| | Shares | Amount | | | | |
| Balance as of December 31, 2021 | 128,647,836 | \$ 129 | \$ 453,807 | \$ (11,080) | \$ 8,170 | \$ 451,026 |
| Equity-based compensation | — | — | 1,368 | — | — | 1,368 |
| Cumulative translation adjustment | — | — | — | 14,405 | — | 14,405 |
| Net income | — | — | — | — | 1,525 | 1,525 |
| Balance as of March 31, 2022 | 128,647,836 | \$ 129 | \$ 455,175 | \$ 3,325 | \$ 9,695 | \$ 468,324 |

| | Partnership Units ⁽¹⁾ | | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Noncontrolling Interest | Total Equity | Redeemable Noncontrolling Interest |
|--|----------------------------------|------------|----------------------------------|--|----------------------|----------------------------|--------------|--|
| | Units | Amount | | | | | | |
| Balance as of December 31, 2020 | 114,167,842 | \$ 108,197 | \$ 727 | \$ 5,839 | \$ 14,138 | \$ 9,983 | \$ 138,884 | \$ — |
| Issuance of units | 25,746,282 | 82,669 | — | — | — | — | 82,669 | — |
| Noncontrolling interest from purchase of Culture Kings | — | — | — | — | — | — | — | 142,717 |
| Equity-based compensation | — | — | 523 | — | — | — | 523 | — |
| Cumulative translation adjustment | — | — | — | (3,444) | — | (398) | (3,842) | (1,575) |
| Net income | — | — | — | — | 1,472 | 318 | 1,790 | — |
| Balance as of March 31, 2021 | 139,914,124 | \$ 190,866 | \$ 1,250 | \$ 2,395 | \$ 15,610 | \$ 9,903 | \$ 220,024 | \$ 141,142 |

(1) Excelerate, L.P. was the predecessor entity to a.k.a. Brands Holding Corp. Refer to Note 1 for additional information.

The accompanying notes are an integral part of these condensed consolidated financial statements

a.k.a. BRANDS HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

| | Three Months Ended March 31, | |
|---|------------------------------|-----------|
| | 2022 | 2021 |
| Cash flows from operating activities: | | |
| Net income | \$ 1,525 | \$ 1,790 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation expense | 1,163 | 196 |
| Amortization expense | 4,054 | 2,390 |
| Amortization of inventory fair value adjustment | 707 | — |
| Amortization of debt issuance costs | 164 | — |
| Non-cash operating lease expense | 2,340 | 298 |
| Equity-based compensation | 1,368 | 523 |
| Deferred income taxes, net | (271) | (1,944) |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | (808) | (1,312) |
| Inventory | (3,132) | 7,984 |
| Prepaid expenses and other current assets | (1,759) | 721 |
| Accounts payable | (6,956) | (2,840) |
| Income taxes payable | (2,127) | (457) |
| Accrued liabilities | (4,937) | 9,504 |
| Returns reserve | (1,788) | 58 |
| Deferred revenue | (2,805) | 2,372 |
| Lease liabilities | (1,641) | (309) |
| Net cash (used in) provided by operating activities | (14,903) | 18,974 |
| Cash flows from investing activities: | | |
| Acquisition of businesses, net of cash acquired | — | (225,725) |
| Cash paid from holdbacks associated with acquisitions | (2,095) | — |
| Purchases of property and equipment | (2,608) | (297) |
| Net cash used in investing activities | (4,703) | (226,022) |
| Cash flows from financing activities: | | |
| Payments of costs related to initial public offering | (1,142) | — |
| Proceeds from line of credit, net of issuance costs | 25,000 | (996) |
| Repayment of line of credit | — | (6,408) |
| Proceeds from issuance of debt, net of issuance costs | (121) | 144,478 |
| Repayment of debt | (1,400) | — |
| Proceeds from issuance of units | — | 82,669 |
| Net cash provided by financing activities | 22,337 | 219,743 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (77) | (326) |
| Net increase in cash, cash equivalents and restricted cash | 2,654 | 12,369 |
| Cash, cash equivalents and restricted cash at beginning of period | 41,018 | 27,099 |
| Cash, cash equivalents and restricted cash at end of period | \$ 43,672 | \$ 39,468 |
| Reconciliation of cash, cash equivalents and restricted cash: | | |
| Cash and cash equivalents | \$ 41,166 | \$ 37,390 |
| Restricted cash | 2,506 | 2,078 |
| Total cash, cash equivalents and restricted cash | \$ 43,672 | \$ 39,468 |

The accompanying notes are an integral part of these condensed consolidated financial statements

a.k.a. BRANDS HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(tabular amounts in thousands, except share, per share data, unit, per unit data, ratios, or as noted)
(unaudited)

Note 1. Description of Business

a.k.a. Brands Holding Corp. (together with our wholly-owned subsidiaries, collectively, the “Company”), which operates under the name “a.k.a. Brands” or “a.k.a.,” is an online fashion retailer focused on acquiring and accelerating the growth of next-generation, digitally native fashion brands targeting Gen Z and Millennial customers.

The Company is headquartered in San Francisco, California, with buying, studio, marketing, fulfillment and administrative functions primarily in Australia and the United States.

Initial Public Offering

In September 2021, the Company completed an initial public offering (the “IPO”), in which the Company issued and sold 10,000,000 shares of its newly authorized common stock for \$11.00 per share for net proceeds of \$95.7 million, after deducting underwriting discounts and commissions of \$6.6 million, and offering costs of \$7.7 million.

Reorganization Transactions

a.k.a. Brands Holding Corp. was formed as a Delaware corporation on May 20, 2021 to be the issuer of common stock in the IPO. Excelerate, L.P. (“Excelerate”), a Cayman limited partnership, and the predecessor entity to a.k.a. Brands Holding Corp., had historically been the holding company of the entities that owned and operated the a.k.a. businesses prior to the IPO. The equity interests of Excelerate, which included the Series A partner units and incentive units, were owned by affiliates of Summit Partners (“Summit”), certain other investors and certain of our executive officers and directors and other members of management.

In connection with the IPO, a reorganization was undertaken to cause Excelerate to become a wholly-owned subsidiary of a.k.a. Brands Holding Corp. Immediately prior to the reorganization, Summit, management and certain other investors exchanged their limited partnership interests in Excelerate for limited partnership interests in New Excelerate, L.P. (“New Excelerate”), and New Excelerate became a limited partner of Excelerate. Immediately prior to the pricing of the IPO, New Excelerate and other Excelerate investors transferred their interests in Excelerate to a.k.a. Brands Holding Corp., in exchange for common stock in a.k.a. Brands Holding Corp (the “New Excelerate Reorganization”). As a result, Excelerate became a wholly-owned subsidiary of a.k.a. Brands Holding Corp.

As a result of the Culture Kings acquisition in March 2021 (refer to Note 3 for additional information), Excelerate indirectly owned 55% of the equity interests in CK Holdings, LP (“CK Holdings”), which owned 100% of the Company’s Culture Kings business prior to the IPO. The remaining 45% of the equity interests in CK Holdings were held by certain minority investors. Immediately following the New Excelerate Reorganization, the Company completed a series of transactions in which the minority investors exchanged their remaining interests in CK Holdings for 21,809,804 newly issued shares of a.k.a. Brands Holding Corp. common stock. The number of shares issued in exchange for the minority interests was determined based on the relative valuations of CK Holdings and consolidated a.k.a. at the time of the IPO.

Excelerate had historically owned 66.7% of the equity interests in P&P Holdings, LP (“P&P Holdings”), which operated the Company’s Petal & Pup business prior to the IPO. The remaining 33.3% of the equity interests in P&P Holdings were held by certain minority investors. On August 19, 2021, the Company repurchased approximately 6.0% of the equity held by the P&P minority investors for AUD \$5.0 million. In connection with the completion of the IPO, the Company used a portion of the net proceeds from the IPO to fund the acquisition of the remaining 27.3% of the equity interests in P&P Holdings then owned by the P&P minority investors for cash of approximately AUD \$22.8 million. Following the completion of this purchase, P&P Holdings became a wholly-owned subsidiary of a.k.a. Brands Holding Corp.

Refinancing Transactions

In March 2021, certain subsidiaries of the Company entered into senior secured credit facilities that provided the Company with a \$125.0 million senior secured term loan facility and up to \$25.0 million aggregate principal in revolving borrowings (the “Fortress Credit Facilities”), and also issued \$25.0 million in senior subordinated notes to an affiliate of Summit (the “Summit Notes”) to provide financing for the Company’s acquisition of Culture Kings (refer to Note 3 for additional information on the Culture Kings acquisition).

In connection with the IPO, certain subsidiaries of the Company entered into a new senior secured credit facility inclusive of a \$100 million term loan and a \$50 million revolving line of credit. The Company used borrowings under this new senior secured credit facility's term loan, together with a portion of the proceeds from the IPO, to repay the Fortress Credit Facilities and Summit Notes in full and subsequently terminated them. Refer to Note 8 for additional information.

Historical Units

Prior to the IPO, incentive units had been issued to certain directors and members of management. These incentive units had a requirement that such shares could not participate in distributions and earnings of Excelerate, L.P. until after the holders of the Series A partner units received their return of capital plus a specified threshold amount per unit. Accordingly, at no time prior to IPO had such threshold been met. In September 2021, in connection with the IPO, all previous ownership interests in Excelerate, L.P., held by New Excelerate and other Excelerate investors were exchanged for shares of common stock in a.k.a. Brands Holdings Corp. in direct proportion to their respective Series A partner units and incentive units, subject to a reverse split factor of 61.25%. All unit, per unit and related information presented in the accompanying consolidated financial statements have been retroactively adjusted, where applicable, to reflect the impact of the split of units held by New Excelerate investors into a proportionate amount of shares of a.k.a. common stock. The terms of the incentive units remained unchanged and individual holders of such units will only be entitled to participate in the distributions and earnings of New Excelerate once the holders of the Series A partner units receive their return of capital plus a specified threshold amount per unit. However, as New Excelerate was issued shares of common stock in direct proportion to its combined Series A partner units and incentive units, New Excelerate will participate in all distributions and returns of the Company in relation to the total amount of shares of a.k.a. common stock that it holds.

Prior to the IPO, a.k.a. used the two-class method in calculating earnings per unit and had not deemed the incentive units to be potentially dilutive due to the requirement that such shares cannot participate in distributions and earnings of the Company until after the Series A units receive their return of capital plus a specified threshold amount per unit, and such threshold had not been met. Accordingly, basic and diluted earnings per share presented on the condensed consolidated statements of income for all periods prior to the IPO are the same. Post-IPO, the common stock held by New Excelerate includes shares issued in proportion to the ownership interests in respect to the incentive units. Therefore, the impact of the incentive unit ownership is included in the common stock issued and outstanding after the IPO.

Note 2. Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The Company's unaudited condensed consolidated interim financial statements have been prepared in accordance with Article 10 of the Securities and Exchange Commission's Regulation S-X. As permitted under those rules, certain footnotes or other financial information that are normally required by generally accepted accounting principles in the United States ("GAAP") can be condensed or omitted. These financial statements have been prepared on the same basis as our annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for the fair statement of our financial information. The accompanying unaudited condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2021 which are included in the Annual Report on Form 10-K filed March 1, 2022 (the "Annual Report") with the SEC. These interim results are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2022 or for any other interim period or for any other future year. The accompanying condensed consolidated financial statements include the balances of the Company and all of its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates. On an ongoing basis, the Company evaluates items subject to significant estimates and assumptions.

Revenue Recognition

Revenue is primarily derived from the sale of apparel merchandise through the Company's online websites and stores and, when applicable, shipping revenue.

Revenue is recognized in an amount that reflects the consideration expected to be received in exchange for products. To determine revenue recognition for contracts with customers in accordance with *Revenue from Contracts with Customers (Topic 606)*, the Company recognizes revenue from the commercial sales of products and contracts by applying the following five steps: (1) identification of the contract, or contracts, with the customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, the Company satisfies its performance obligation. A contract is created with the customer at the time the order is placed by the customer, which creates a single performance obligation. The Company recognizes revenue for its single performance obligation at the time control of the product passes to the customer, which is when the goods are transferred to a third-party common carrier, for purchases through the Company's online websites, or at point of sale, for purchases in its stores. In addition, the Company has elected to treat shipping and handling as fulfillment activities and not a separate performance obligation.

Net sales from product sales includes shipping charged to the customer and is recorded net of taxes collected from customers, which are recorded in accrued liabilities and are remitted to governmental authorities. Cash discounts earned by the customers at the time of purchase and estimates for sales return allowances are deducted from gross revenue in determining net sales.

The Company generally provides refunds for goods returned within 30 to 45 days from the original purchase date. A returns reserve is recorded by the Company based on historical refund experience with a corresponding reduction of sales and cost of sales. The returns reserve was \$5.2 million and \$6.9 million as of March 31, 2022 and December 31, 2021, respectively.

The following table presents a summary of the Company's sales return reserve:

| | | |
|---------------------------------|----|----------|
| Balance as of December 31, 2020 | \$ | 3,517 |
| Returns | | (80,915) |
| Allowance | | 84,285 |
| Balance as of December 31, 2021 | | 6,887 |
| Returns | | (24,023) |
| Allowance | | 22,312 |
| Balance as of March 31, 2022 | \$ | 5,176 |

The Company also sells gift cards and issues online credits in lieu of cash refunds or exchanges. Proceeds from the issuance of gift cards and online credits issued are recorded as deferred revenue and recognized as revenue when the gift cards or online credit are redeemed or, upon inclusion in gift card and online credit breakage estimates. Breakage estimates are determined based on prior historical experience.

Revenue recognized in net sales on breakage of gift cards and online credit for the three months ended March 31, 2022 and 2021 was \$0.2 million and insignificant, respectively.

The following table presents the disaggregation of the Company's net sales by geography, based on customer address:

| | Three Months Ended March 31, | |
|---------------|------------------------------|-----------|
| | 2022 | 2021 |
| United States | \$ 77,668 | \$ 42,830 |
| Australia | 51,895 | 19,015 |
| Rest of world | 18,756 | 6,934 |
| Total | \$ 148,319 | \$ 68,779 |

Segment Information

Operating segments are defined as components of an entity for which separate financial information is available and is regularly reviewed by the Chief Operating Decision Maker in deciding how to allocate resources and in assessing performance. The Company has determined that its five brands are each an operating segment. The Company has aggregated its operating segments into one reportable segment based on the similar nature of products sold, production, merchandising and distribution processes involved, target customers and economic characteristics.

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This standard simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Topic 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. The guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill and the allocation of consolidated income taxes to separate financial statements of entities not subject to income tax. The Company adopted this ASU on January 1, 2022, and the adoption did not have a material impact on its condensed consolidated financial statements.

New Accounting Pronouncements Not Yet Adopted

In March, 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (ASC 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The pronouncement and amendments help limit the accounting impact from contract modifications, including hedging relationships, due to the transition from the London Inter-Bank Offered Rate ("LIBOR") to alternative reference rates that are completed by December 31, 2022. The Company is currently evaluating the impact of this update, but does not expect a significant impact to our financial results, financial position or cash flows from the transition from LIBOR to alternative reference interest rates, but will continue to monitor the impact of this transition until it is completed.

Note 3. Acquisitions

Culture Kings

On March 31, 2021, pursuant to a share sale agreement, the Company, through its subsidiary CK Holdings, acquired a 55% ownership stake in Culture Kings. The previous shareholders of Culture Kings retained a 45% noncontrolling interest in Culture Kings by receipt of an equity interest in CK Holdings. The Company recognized goodwill as the excess of the fair value of the total purchase consideration and noncontrolling interests over the net fair value of the identifiable assets acquired and the liabilities assumed. The purchase price consisted of AUD \$307.4 million (\$235.9 million) in cash consideration and noncontrolling interest with a fair value of AUD \$186.0 million (\$142.7 million). In connection with the IPO, the Company completed a series of transactions in which the minority investors exchanged their interests in CK Holdings for newly issued shares of a.k.a. Brands Holding Corp. common stock (refer to Note 1 for additional information).

Culture Kings is focused on street apparel aimed at the young adult age group and has a combination of online sales as well as stores based in Australia and expands the Company's consumer market to include male consumers and further expansion in the United States.

The following table sets forth the final allocation of the total consideration to the identifiable tangible and intangible assets acquired and liabilities assumed, as of the date of the acquisition, with the excess recorded to goodwill:

| Purchase consideration: | |
|---|-------------------|
| Total purchase price, net of cash acquired of \$8,831 | \$ 227,053 |
| Fair value of noncontrolling interest | 142,717 |
| Total consideration | \$ 369,770 |
| Identifiable net assets acquired: | |
| Account receivable, net | \$ 625 |
| Inventory ⁽¹⁾ | 62,937 |
| Prepaid expenses and other current assets | 4,800 |
| Property and equipment, net | 8,048 |
| Intangible assets, net ⁽²⁾ | 73,209 |
| Operating lease right-of-use assets | 24,299 |
| Accounts payable | (13,449) |
| Deferred revenue | (141) |
| Income taxes payable | (1,778) |
| Other current liabilities | (2,533) |
| Operating lease liabilities | (24,299) |
| Deferred income taxes, net | (25,439) |
| Accrued liabilities, non-current | (1,058) |
| Net assets acquired | 105,221 |
| Goodwill | \$ 264,549 |

The purchase price allocation includes significant judgments, assumptions and estimates to determine the fair value of assets acquired and liabilities assumed. The valuations involving the most significant assumptions, estimates and judgment are:

(1) Inventory was adjusted by \$15.1 million to step-up inventory cost to estimated fair value. The fair value of the inventory was determined utilizing the net realizable value method, which was based on the expected selling price of the inventory to customers adjusted for related disposal costs and a profit allowance for the post-acquisition selling effort.

(2) The fair value of the acquired intangible assets was determined with the assistance of a valuation specialist and include:

| | Estimated Fair Value | Annual Amortization Expense | Estimated Useful Life in Years |
|------------------------|----------------------|-----------------------------|--------------------------------|
| Brand names | \$ 68,354 | \$ 6,835 | 10 years |
| Customer relationships | 4,855 | 1,214 | 4 years |
| Total | \$ 73,209 | | |

Brand names are valued using a relief from royalty approach, which estimates the license fee that would need to be paid by Culture Kings if it was deprived of the brand names and domain names, and instead had to pay a license fee for their use. The fair value is the present value of the expected future license fee cash flows.

Customer relationship intangible assets are valued using the multi-period excess earnings method, which is the present value of the projected cash flows that are expected to be generated by the existing intangible asset after reduction by an estimated fair rate of return on contributory assets required to generate the customer relationship revenues. Key assumptions included discounted cash flow, estimated life cycle and customer attrition rates.

Total acquisition costs incurred by the Company in connection with its purchase of Culture Kings primarily related to third-party legal, accounting and tax diligence fees, were \$3.3 million. These costs are recorded in general and administrative expenses in the condensed consolidated statement of income for the year ended December 31, 2021.

Goodwill of \$264.5 million, none of which is deductible for tax purposes, represents the excess purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed. The goodwill arising from the acquisition consists largely of anticipated synergies related to combining with the Company's existing operations.

The fair value of the noncontrolling interest was determined by measuring the fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition, adjusted for a discount to factor the non-marketable, noncontrolling holding.

The noncontrolling interest in Culture Kings contained a put right whereby the minority investors could have caused CK Holdings to purchase all of their units at a per unit price equal to six times the EBITDA of CK Holdings, calculated as of the twelve-month period ending on the end of the most recent fiscal quarter. The put right was only exercisable after December 31, 2023. In accordance with ASC 810, *Consolidation*, as this put right was redeemable outside of the Company's control, the noncontrolling interest was classified outside the permanent equity section of the Company's consolidated balance sheets prior to the IPO. In connection with the IPO, the Company completed a series of transactions in which the CK Holdings minority investors exchanged their interests in CK Holdings for newly issued shares of a.k.a. Brands Holding Corp. common stock, thereby eliminating the noncontrolling interest classified outside of permanent equity.

Since the date of acquisition, March 31, 2021, the results of Culture Kings have been included in the Company's consolidated results. The following amounts are included in the accompanying condensed consolidated statements of income for the three months ended March 31, 2022:

| | Three Months Ended March 31, 2022 | |
|-----------|--------------------------------------|--------|
| Net sales | \$ | 48,925 |
| Net loss | \$ | (93) |

The unaudited pro forma financial information below is presented to illustrate the estimated effects of the acquisition of Culture Kings and the associated financing as if they had occurred on January 1, 2020:

| | Three Months Ended March 31, | | | |
|--|------------------------------|---------|------|---------|
| | 2022 | | 2021 | |
| Net sales | \$ | 148,319 | \$ | 119,978 |
| Net income attributable to a.k.a. Brands Holding Corp. | \$ | 1,525 | \$ | 2,852 |
| Net income per share, basic and diluted | \$ | 0.01 | \$ | 0.03 |

The pro forma information was prepared using the acquisition method of accounting in accordance with ASC 805 *Business Combinations*. The unaudited pro forma financial information has been prepared for informational purposes only and is not indicative of what the Company's results of operations would have been had the transactions occurred on January 1, 2020, nor does it project the results of operations of the combined company following the transaction.

mnml

On October 14, 2021, the Company acquired all of the equity interests of Third Estate LLC (“mnml”) for total consideration of \$46.1 million, including cash consideration of \$28.2 million, net of cash acquired of \$0.6 million, and subject to working capital adjustments. The remaining consideration of \$17.3 million was paid in the form of 2,057,695 shares of a.k.a. common stock. mnml is an LA-based streetwear brand that offers competitively priced on-trend wardrobe staples. This acquisition will help the Company continue its growth into the US market and provide opportunities for customer cross-sell.

The estimated fair values of assets acquired and liabilities assumed as of the date of the acquisition, are as follows:

| | | |
|---|----|---------|
| Accounts receivable, net | \$ | 68 |
| Inventory ⁽¹⁾ | | 7,321 |
| Prepaid expenses and other current assets | | 2,178 |
| Other assets | | 15 |
| Intangible assets ⁽²⁾ | | 14,300 |
| Accounts payable | | (504) |
| Deferred income | | (164) |
| Accrued liabilities | | (1,794) |
| Assumed loan | | (1,312) |
| Sales and use tax liability | | (1,100) |
| Deferred income taxes, net | | (3,159) |
| Total net assets acquired | | 15,849 |
| Goodwill | | 29,650 |
| Total purchase price, net of cash acquired of \$605 | \$ | 45,499 |

The cash purchase consideration is subject to working capital adjustments that will be concluded before the one-year anniversary of the close of the transaction. The preliminary purchase price allocation includes significant judgments, assumptions and estimates to determine the fair value of assets acquired and liabilities assumed. The valuations involving the most significant assumptions, estimates and judgment are:

(1) Inventory was adjusted by \$1.9 million to step-up inventory cost to estimated fair value. The fair value of the inventory was determined utilizing the net realizable value method, which was based on the expected selling price of the inventory to customers adjusted for related disposal costs and a profit allowance for the post-acquisition selling effort.

(2) The fair value of the acquired intangible assets was determined with the assistance of a valuation specialist and include:

| | Fair Value at Acquisition Date | Amortization Period |
|-------------------------|-----------------------------------|---------------------|
| Brand | \$ 11,800 | 10 years |
| Customer relationships | 2,500 | 3 years |
| Total intangible assets | <u>\$ 14,300</u> | |

The results of operations of mnml are included in the Company’s consolidated results beginning October 14, 2021. Total net sales of \$10.6 million and net income of \$0.8 million of mnml are included in the accompanying condensed consolidated statement of income for the three months ended March 31, 2022. Goodwill of \$29.7 million, none of which is deductible for tax purposes, represents the excess purchase price over the estimated fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed. The goodwill arising from the acquisition consists largely of anticipated synergies related to combining with the Company’s existing operations.

Total acquisition costs incurred by the Company in connection with the purchase primarily related to third-party legal, accounting and tax diligence fees, were \$.3 million. These costs are recorded in general and administrative expenses in the consolidated statement of income during the year ended December 31, 2021.

Purchase of Noncontrolling Interests

Immediately following the New Excelerate Reorganization (as described in Note 1), the Company completed a series of transactions in which the minority investors exchanged their interests in CK Holdings for 21,809,804 newly issued shares of a.k.a. Brands Holding Corp. common stock. The number of shares issued in exchange for the minority interests was determined based on the relative valuations of CK Holdings and the consolidated a.k.a. group at the time of the IPO. This exchange resulted in the elimination of the noncontrolling interest in Culture Kings, with a value of \$132.3 million, and an increase in additional paid-in capital with a nominal amount recorded as common stock at a value of \$0.001 per issued share in the exchange. Following the completion of this transaction, CK Holdings became a wholly-owned subsidiary of a.k.a. Brands Holding Corp.

The Company had historically owned 66.7% of the equity interests in P&P Holdings, which operated the Company's Petal & Pup business prior to the IPO. The remaining 33.3% of the equity interests in P&P Holdings were held by certain minority investors. On August 19, 2021, the Company repurchased approximately 6.0% of the equity held by the P&P minority investors for AUD \$5.0 million. In connection with the completion of the IPO, the Company used a portion of the net proceeds from the IPO to fund the acquisition of the remaining 27.3% of the equity interests in P&P Holdings then owned by the P&P minority investors for cash of approximately AUD \$22.8 million. As a result of the transaction, noncontrolling interest of \$9.6 million was eliminated and the \$10.6 million paid in excess of the noncontrolling interest was recorded as a reduction to additional paid-in capital. Following the completion of this purchase, P&P Holdings became a wholly-owned subsidiary of a.k.a. Brands Holding Corp.

Note 4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are comprised of the following:

| | March 31, 2022 | December 31, 2021 |
|---|-------------------|----------------------|
| Inventory prepayments | \$ 13,924 | \$ 14,251 |
| Other | 8,781 | 6,558 |
| Total prepaid expenses and other current assets | <u>\$ 22,705</u> | <u>\$ 20,809</u> |

Note 5. Property and Equipment, Net

Property and equipment, net is comprised of the following:

| | March 31, 2022 | December 31, 2021 |
|---|-------------------|----------------------|
| Furniture and fixtures | \$ 1,410 | \$ 1,305 |
| Machinery and equipment | 3,832 | 1,595 |
| Computer equipment and capitalized software | 4,980 | 2,638 |
| Leasehold improvements | 11,816 | 12,457 |
| Total property and equipment | 22,038 | 17,995 |
| Less accumulated depreciation | (4,702) | (3,338) |
| Total property and equipment, net | <u>\$ 17,336</u> | <u>\$ 14,657</u> |

Total depreciation expense was \$1.2 million and \$0.2 million for the three months ended March 31, 2022 and 2021, respectively. Property and equipment that is fully depreciated as of the last day of a fiscal year is written off during the first quarter of the following year. On January 1, 2022, the Company established a policy to classify all capitalized software, website design and software systems as property and equipment, resulting in a reclassification of such assets and related depreciation and amortization from intangible assets, net, to property and equipment, net.

Note 6. Goodwill

The carrying value of goodwill, as of March 31, 2022 and December 31, 2021, was \$73.8 million and \$363.3 million, respectively. No goodwill impairment was recorded during the three months ended March 31, 2022 or the year ended December 31, 2021.

The goodwill of the acquired companies is primarily related to expected improvements in technology performance and functionality, as well as sales growth from future product and service offerings and new customers, together with certain intangible assets that do not qualify for separate recognition. The goodwill of acquired companies is generally not deductible for tax purposes.

The following table summarizes goodwill activity:

| | | |
|---|----|----------------|
| Balance as of December 31, 2021 | \$ | 363,305 |
| Changes in foreign currency translation | | 10,494 |
| Balance as of March 31, 2022 | \$ | <u>373,799</u> |

Note 7. Intangible Assets

The gross amounts and accumulated amortization of acquired identifiable intangible assets with finite useful lives as of March 31, 2022 and December 31, 2021, included in intangible assets, net in the accompanying condensed consolidated balance sheets, are as follows:

| | Useful life | March 31, 2022 | | December 31, 2021 | |
|------------------------------------|-------------|---|------------------|---|------------------|
| | | Weighted Average Amortization Period 2022 | 2022 | Weighted Average Amortization Period 2021 | 2021 |
| Customer relationships | 4 years | 2.4 years | \$ 24,690 | 2.5 years | \$ 24,516 |
| Brands | 10 years | 8.6 years | 103,115 | 8.9 years | 100,315 |
| Website design and software system | 3 years | | | 2.2 years | 1,883 |
| Trademarks | 5 years | 3.0 years | 118 | 3.3 years | 114 |
| Total intangible assets | | | <u>127,923</u> | | <u>126,828</u> |
| Less accumulated amortization | | | (31,937) | | (28,541) |
| Total intangible assets, net | | | <u>\$ 95,986</u> | | <u>\$ 98,287</u> |

Amortization of acquired intangible assets with finite useful lives is included in general and administrative expenses and was \$4.1 million and \$2.4 million for the three months ended March 31, 2022 and 2021, respectively. Intangible assets that are fully depreciated as of the last day of a fiscal year are written off during the first quarter of the following year. On January 1, 2022, the Company established a policy to classify all capitalized software, website design and software systems as property and equipment, resulting in a reclassification of such assets and related depreciation and amortization from intangible assets, net, to property and equipment, net.

Future estimated amortization expense for acquired identifiable intangible assets is as follows:

| | Amortization Expense |
|----------------------------|----------------------|
| Year ending December 31: | |
| Remainder of 2022 | \$ 11,101 |
| 2023 | 13,116 |
| 2024 | 12,561 |
| 2025 | 10,717 |
| 2026 | 10,307 |
| Thereafter | 38,184 |
| Total amortization expense | <u>\$ 95,986</u> |

Note 8. Debt

Princess Polly Operating Line of Credit

The Company's subsidiary Princess Polly had an operating line of credit (the "Polly Facility") up to a maximum of \$5.4 million, which was guaranteed by Polly Bidco Pty Ltd. and Polly Holdco Pty Ltd, each subsidiaries of the Company ("Princess Polly Group"). The assets of the Princess Polly Group were pledged as security under the Polly Facility.

The Polly Facility was available to make cash draws, procure letters of credit instruments and for the provision of ancillary facilities. The Polly Facility was due November 2021, and was therefore classified as a current liability as of December 31, 2020. As of December 31, 2020, the Company had drawn \$6.2 million on the Facility and had \$0.8 million drawn in letters of credit which were held as collateral under various custom bonds agreements.

The Company repaid the outstanding balances under the Polly Facility in full and terminated it in February 2021.

Rebdolls Revolving Line of Credit

Rebdolls had a revolving line of credit for a maximum of \$0.5 million with Bank of America, N.A. The assets of Rebdolls were pledged as security under this line of credit. As of December 31, 2020, Rebdolls had an outstanding balance of \$0.2 million on the revolving line of credit.

The Company repaid the outstanding balances under the revolving line of credit in full on February 28, 2021, the date of its maturity, and terminated it.

Debt Financing for the Culture Kings Acquisition

To fund the acquisition of Culture Kings (refer to Note 3 for additional information), on March 31, 2021, Polly Holdco Pty Ltd. ("Polly"), a wholly-owned subsidiary of the Company, entered into a debt agreement with a syndicated group, with an affiliate of Fortress Credit Corp as administrative agent, consisting of a \$125.0 million term-loan facility and \$25.0 million revolving credit facility.

Polly also issued \$25.0 million in senior subordinated notes to certain debt funds of Summit Partners, a related party of the Company (refer to Note 16 for additional information). The combined term loan and senior subordinated notes provided the Company with \$144.1 million, net of loan fees of approximately \$5.9 million.

The Company incurred debt issuance costs of \$6.9 million, of which \$1.0 million related to the revolving credit facility, which were capitalized and included in prepaid and other current assets as deferred financing costs and were being amortized over the life of the facility, or 6 years. The remaining \$5.9 million of debt issuance costs relating to the term loan and senior subordinated notes were presented net of the outstanding debt and were being amortized over the life of the outstanding debt, using the effective interest rate method. The Company repaid the term loan, revolving credit facility and senior subordinated notes in full and terminated them in September 2021 in connection with the IPO, as described further below.

New Senior Secured Credit Facility

On September 24, 2021, at the close of the Company's IPO, certain subsidiaries of the Company entered into a new senior secured credit facility inclusive of a \$100.0 million term loan and a \$50.0 million revolving line of credit, as well as an option for additional term loan of up to \$0.0 million through an accordion feature. Key terms and conditions of each facility were as follows:

- The \$100.0 million term loan matures five years after closing and requires the Company to make amortized annual payments of 5.0% during the first and second years, 7.5% during the third and fourth years and 10.0% during the fifth year with the balance of the loan due at maturity. Borrowings under the term loan accrue interest at LIBOR plus an applicable margin dependent upon our net leverage ratio. The highest interest rate under the agreement occurs at a net leverage ratio of greater than 2.75x, yielding an interest rate of LIBOR plus 3.25%.
- The \$50.0 million revolving line of credit, which matures five years after closing, accrues interest at LIBOR plus an applicable margin dependent upon our net leverage ratio. The highest interest rate under the agreement occurs at a net leverage ratio of greater than 2.75x, yielding an interest rate of LIBOR plus 3.25%. Additionally, a margin fee of 25-35 basis points is assessed on unused amounts under the revolving line of credit, subject to adjustment based on our net leverage ratio.

- The \$50.0 million accordion feature allows the Company to enter into additional term loan borrowings at terms to be agreed upon at the time of issuance, but on substantially the same basis as the original term loan, which includes the requirement to make amortized annual payments at the same cadence as that of the original term loan.

The new senior secured credit facility requires that the Company maintain a maximum total net leverage ratio of 3.50 to 1.00 as of the last day of any fiscal quarter, beginning with the fiscal quarter ended December 31, 2021 through maturity. The new senior secured credit facility also requires that the Company maintain a minimum fixed charge coverage ratio of 1.25 to 1.00 as of the last day of any fiscal quarter, beginning with the fiscal quarter ended December 31, 2021 through maturity. In the event that the Company fails to comply with the financial covenant, the Company will have the option to make certain equity contributions, directly or indirectly, to cure any non-compliance with such covenant, subject to certain other conditions and limitations. Beginning with the fiscal year ending December 31, 2022, and continuing annually thereafter, the Company is required to make a mandatory prepayment as a percentage of excess cash flows, as defined by the credit agreement, in the period based on the Company triggering certain net debt leverage ratios. Specifically, a mandatory prepayment of 50% of excess cash flows is required if the Company's net leverage ratio exceeds 2.75x, and a mandatory prepayment of 25% of excess cash flows is required if the Company's net leverage ratio is greater than or equal to 2.25x. As of March 31, 2022, the Company was in compliance with all debt covenants.

The Company incurred \$2.7 million of debt issuance costs in relation to the new senior secured credit facility. Of this, \$0.9 million relates to the revolving credit facility and is capitalized and included in prepaid and other current assets as deferred financing costs to be amortized over the life of the facility, or five years. The remaining \$1.8 million of debt issuance costs relates to the term loan and is presented net of our outstanding debt in long term debt on our balance sheet. Debt issuance costs are amortized over the life of the outstanding debt, using the effective interest rate method.

In September 2021, the Company used borrowings from the term loan under this new senior secured credit facility, together with a portion of the proceeds from the IPO, to repay in full and terminate the previous term loan, revolving credit facility and senior subordinated notes entered into in March 2021 in relation to the Culture Kings acquisition.

In October 2021, the Company borrowed \$15.0 million under the revolving line of credit at an applicable interest rate of 3.37% and final payoff due on September 24, 2026. The borrowings on the revolving line of credit were used in the acquisition of mnml. See Note 3 for additional details. In November 2021, subsequent to the draw on the revolver, the Company borrowed \$12.0 million of additional term loan under the accordion feature at substantially the same terms as the original term loan. In December 2021, the borrowings from the accordion feature, along with cash on hand, were used to completely repay the borrowings from the revolving line of credit. In connection with the borrowings under the accordion feature, additional debt issuance costs of \$0.3 million were incurred and presented net of our outstanding debt in long term debt on our balance sheet, to be amortized over the life of the accordion, using the effective interest rate method.

In January 2022, the Company borrowed \$15.0 million under the revolving line of credit at an applicable interest rate of 3.52% and final payoff due on September 24, 2026. Additionally, in March 2022, the Company borrowed \$10.0 million under the revolving line of credit at an applicable interest rate of 3.60% and final payoff due on September 24, 2026. Subsequently, beginning on April 1, 2022, the all-in rate (LIBOR plus the applicable margin) for the combined \$25.0 million of outstanding borrowings under the revolving line of credit was repriced under the governing terms of the revolving line of credit to an applicable interest rate of 3.51%.

Total Debt and Interest

Outstanding debt consisted of the following:

| | March 31, 2022 | December 31, 2021 |
|---------------------------------|-------------------|----------------------|
| Term loan | \$ 109,350 | \$ 110,750 |
| Revolving credit facility | 25,000 | — |
| Capitalized debt issuance costs | (1,849) | (1,968) |
| Total debt | 132,501 | 108,782 |
| Less current portion | (5,600) | (5,600) |
| Total long-term debt | \$ 126,901 | \$ 103,182 |

Interest expense, which included the amortization of debt issuance costs, totaled \$1.3 million and \$0.1 million for the three months ended March 31, 2022 and 2021, respectively.

Note 9. Leases

The Company leases office locations, warehouse facilities and stores under various non-cancellable operating lease agreements (real estate leases). Real estate leases have remaining lease terms of approximately 1 year to 10 years, which represent the non-cancellable periods of the leases and include extension options that the Company determined are reasonably certain to be exercised. The Company excludes extension options that are not reasonably certain to be exercised from the lease terms, ranging from approximately 6 months to 3 years. Lease payments consist primarily of fixed rental payments for the right to use the underlying leased assets over the lease terms as well as payments for common area maintenance and administrative services. The Company often receives customary incentives from landlords, such as reimbursements for tenant improvements and rent abatement periods, which effectively reduce the total lease payments owed for these leases. Leases are classified as operating or financing at commencement. The Company does not have any material financing leases.

Operating lease right-of-use assets and liabilities on the condensed consolidated balance sheets represent the present value of the remaining lease payments over the remaining lease terms. The Company uses its incremental borrowing rate to calculate the present value of the lease payments, as the implicit rates in the leases are not readily determinable. Operating lease costs consist primarily of the fixed lease payments included in the operating lease liabilities and are recorded on a straight-line basis over the lease terms.

The Company's operating lease costs were as follows:

| | Three Months Ended March 31, | |
|------------------------|------------------------------|--------|
| | 2022 | 2021 |
| Operating lease costs | \$ 2,165 | \$ 352 |
| Variable lease costs | 148 | 47 |
| Short-term lease costs | 129 | — |
| Total lease costs | \$ 2,442 | \$ 399 |

The Company does not have any sublease income and the Company's lease agreements do not contain any residual value guarantees or material restrictive covenants.

Supplemental cash flow information relating to the Company's operating leases was as follows:

| | Three Months Ended March 31, | |
|--|------------------------------|--------|
| | 2022 | 2021 |
| Cash paid for operating lease liabilities | \$ 1,834 | \$ 343 |
| Operating lease right-of-use assets obtained in exchange for new operating lease liabilities | 17,242 | 70 |

Other information relating to the Company's operating leases was as follows:

| | March 31, 2022 | December 31, 2021 |
|---------------------------------------|-------------------|----------------------|
| Weighted-average remaining lease term | 7.6 years | 6.1 years |
| Weighted-average discount rate | 4.3% | 3.9% |

As of March 31, 2022, the maturities of operating lease liabilities were as follows:

| | |
|---------------------------------------|-----------|
| Remainder of 2022 | \$ 4,334 |
| 2023 | 9,236 |
| 2024 | 6,666 |
| 2025 | 5,843 |
| 2026 | 4,933 |
| Thereafter | 21,967 |
| Total remaining lease payments | 52,979 |
| Less: imputed interest | 9,074 |
| Total operating lease liabilities | 43,905 |
| Less: current portion | (6,544) |
| Long-term operating lease liabilities | \$ 37,361 |

On January 31, 2022, the Company entered into a lease agreement with Forum Shops, LLC to lease approximately 13,425 square feet of selling space located in the Forum Shops at Caesars Palace. The lease commenced in March 2022 and will require rent payments beginning in the latter half of 2022 when the store opens. Rent payments for the twelve months after the store opens will be approximately \$1.7 million and have subsequent annual increases to such cash payments by 3.0% each year through the tenth anniversary of the lease commencement.

Note 10. Income Taxes

For interim reporting periods, the Company's provision for income taxes is calculated using its annualized estimated effective tax rate for the year. This rate is based on its estimated full year income and the related income tax expense for each jurisdiction in which the Company operates. The effective tax rate can be affected by changes in the geographical mix, permanent differences and the estimate of full year pretax accounting income. This rate is adjusted for the effects of discrete items occurring in the period.

Note 11. Accrued Liabilities

Accrued liabilities consisted of the following:

| | March 31, 2022 | December 31, 2021 |
|-------------------------------------|-------------------|----------------------|
| Accrued salaries and other benefits | \$ 8,622 | \$ 11,746 |
| Accrued freight costs | 6,223 | 9,199 |
| Sales tax payable | 20,902 | 20,008 |
| Accrued marketing costs | 2,656 | 2,543 |
| Accrued professional services | 2,372 | 1,698 |
| Other accrued liabilities | 5,936 | 8,181 |
| Total accrued liabilities | <u>\$ 46,711</u> | <u>\$ 53,375</u> |

Note 12. Equity-based Compensation

Incentive Plans

2021 Omnibus Incentive Plan

In September 2021, the Company's board of directors adopted, and its stockholders approved, the 2021 Omnibus Incentive Plan (the "2021 Plan") which became effective in connection with the IPO. The 2021 Plan provides for the grant of stock options, stock appreciation rights, restricted stock awards, restricted stock units and other forms of equity and cash compensation. A total of 4,900,269 shares of the Company's common stock were initially reserved for issuance under the 2021 Plan. The number of shares of common stock reserved and available for issuance under the 2021 Plan automatically increased on January 1, 2022 by 1% of the number of shares of the Company's common stock outstanding on December 31, 2021, and will continue to automatically increase each January 1 by 1% of the number of shares of the Company's common stock outstanding on the immediately preceding December 31, or such lesser number of shares as determined by the compensation committee of the Company's board of directors.

2021 Employee Stock Purchase Plan

In September 2021, the Company's board of directors adopted, and its stockholders approved, the 2021 Employee Stock Purchase Plan (the "ESPP") which became effective in connection with the IPO. The ESPP authorizes the issuance of shares of the Company's common stock pursuant to purchase rights granted to employees. The ESPP includes two components: a "Section 423 Component" and a "Non-Section 423 Component." The Section 423 Component is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code (the "Code") and will be administered, interpreted and construed in a manner consistent with the requirements of Section 423 of the Code and is limited to employees of the Company located in the United States. The Non-Section 423 Component will be granted pursuant to separate offerings designed to achieve tax, securities laws or other objectives for eligible employees of the Company located outside of the United States.

A total of 1,225,067 shares of the Company's common stock were initially reserved for issuance under the ESPP. The ESPP provides that the number of shares reserved and available for issuance will automatically increase each January 1, beginning on January 1, 2023, by the lesser of 1% of the number of shares of the Company's common stock outstanding on the immediately preceding December 31, or such lesser number of shares as determined by the compensation committee of the Company's board of directors.

The offering periods of the ESPP will be six months long and are anticipated to be offered twice per year. The price at which common stock is purchased under the ESPP is equal to 85% of the fair market value of a share of the Company's common stock on the first or last day of the offering period, whichever is lower.

2018 Stock and Incentive Compensation Plan

Prior to the IPO, the 2018 Stock and Incentive Compensation Plan, as amended, (the "2018 Plan") provided for the issuance of time-based incentive units and performance-based incentive units issued by Excelerate, L.P. (the predecessor entity of a.k.a. Brands Holding Corp.). In connection with the reorganization transactions and the IPO, all of the equity interests in Excelerate, L.P., including outstanding incentive units issued as equity-based compensation under the 2018 Plan, were transferred to New Excelerate, L.P. (refer to Note 1 for additional information). The incentive units issued under the 2018 Plan participate in distributions from New Excelerate, L.P., but only after investors receive their return of capital plus a specified threshold amount per unit. The total incentive pool size under the plan was 16,475,735 units. The 2018 Plan was terminated in September 2021 in connection with the IPO, but continues to govern the terms of outstanding incentive units that were granted prior to the IPO. No further incentive units will be granted under the 2018 Plan.

Upon the expiration, forfeiture, cancellation or withholding of units for employee taxes of any incentive units underlying outstanding incentive unit awards granted under the 2018 Plan, an equal number of shares of a.k.a. Brands Holding Corp. common stock will become available for grant under the 2021 Plan that was established in connection with the IPO.

Grant Activity

Stock Options

The 2021 Plan provides for the issuance of incentive and nonqualified stock options. Under the 2021 Plan, the exercise price of an incentive stock option shall not be less than the fair market value of one share of the Company's common stock on the date of grant. Stock options are exercisable over periods not to exceed ten years from the date of grant, and generally vest over time or based on performance. As of March 31, 2022, all stock option grants have been time-based.

A summary of the Company's time-based stock option activity under the 2021 Plan was as follows:

| | Number of Options | Weighted Average Exercise Price | Aggregate Intrinsic Value |
|---------------------------------|-------------------|---------------------------------|---------------------------|
| Balance as of December 31, 2021 | 273,026 | \$ 9.50 | \$ — |
| Granted | — | — | — |
| Vested | — | — | — |
| Forfeited/Repurchased | — | — | — |
| Balance as of March 31, 2022 | 273,026 | 9.50 | — |
| Vested as of March 31, 2022 | — | — | — |

As of March 31, 2022, there was \$1.2 million of total unrecognized compensation cost related to unvested stock options issued under the 2021 Plan, which is expected to be recognized over a weighted average period of 3.4 years.

Restricted Stock Units

The 2021 Plan provides for the issuance of restricted stock units (“RSUs”). RSUs generally vest over four years.

A summary of the Company's RSU activity under the 2021 Plan was as follows:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---------------------------------|------------------|--|
| Balance as of December 31, 2021 | 915,480 | \$ 10.04 |
| Granted | 78,320 | 6.30 |
| Vested | — | 0.00 |
| Forfeited/Repurchased | (40,525) | 9.99 |
| Balance as of March 31, 2022 | 953,275 | \$ 9.74 |

As of March 31, 2022, there was \$8.0 million of total unrecognized compensation cost related to unvested RSUs issued under the 2021 Plan, which is expected to be recognized over a weighted average period of 3.6 years.

Incentive Units

The 2018 Plan provided for the issuance of time-based incentive units and performance-based incentive units. Time-based incentive units generally vest over four years. Performance-based incentive units vested upon the satisfaction of the performance condition as described further below.

Time-Based Incentive Partnership Units

The following table summarizes time-based incentive unit activity under the 2018 Plan:

| | Number of Units | Weighted Average Grant Date Fair value | Weighted Average Participation Threshold | Aggregate Intrinsic Value |
|---------------------------------|-----------------|--|--|---------------------------|
| Balance as of December 31, 2021 | 5,975,813 | \$ 1.16 | \$ 3.04 | \$ 14,162 |
| Granted | — | — | — | |
| Vested | (458,155) | 1.42 | 1.37 | |
| Forfeited/Repurchased | (87,214) | 0.42 | 1.07 | |
| Balance as of March 31, 2022 | 5,430,444 | \$ 1.15 | \$ 3.21 | \$ 1,865 |
| Vested as of March 31, 2022 | 3,820,425 | | | |

As of March 31, 2022, there was \$5.8 million of total unrecognized compensation cost related to unvested time-based incentive units issued under the 2018 Plan, which is expected to be recognized over a weighted average period of 2.4 years.

While there were no time-based incentive units granted under the 2018 plan during the three months ended March 31, 2022, the assumptions that the Company used to determine the grant date fair value of time-based incentive units during the three months ended March 31, 2021 were as follows, presented on a weighted-average basis:

| | Three Months Ended March 31, 2021 |
|-------------------------|-----------------------------------|
| Risk free interest rate | 0.12 % |
| Expected volatility | 45 % |
| Expected dividend yield | 0 % |
| Expected term | 1.60 years |

Performance-Based Incentive Units

Performance-based incentive units vest upon the satisfaction of a performance condition and become exercisable upon the satisfaction of the market condition. The performance condition was satisfied upon the occurrence of the IPO. As it was not deemed probable until it occurred, all compensation expense related to these awards was recognized at the date of IPO. The market condition is satisfied upon the initial investor in Excelerate, L.P. receiving an aggregate return equal to three times its aggregate investment. As of September 30, 2021, all outstanding performance-based incentive units have been fully expensed.

The grant date fair value of the performance-based incentive units was determined using the Black-Scholes option pricing model, modified to allow for vesting only if the value at the distribution date is at or above the performance threshold.

Equity-Based Compensation Expense

The Company recognizes compensation expense in general and administrative expenses within operating expenses for stock options, RSUs and time-based incentive units granted prior to the IPO, by amortizing the grant date fair value on a straight-line basis over the expected vesting period to the extent the vesting of the grant is considered probable. The Company recognized compensation expense for performance-based incentive units granted prior to the IPO at the date of IPO. The Company recognizes equity-based award forfeitures in the period such forfeitures occur.

The following table summarizes the Company's equity-based compensation expense by award type for all Plans:

| | Three Months Ended March 31, | |
|----------------------------|------------------------------|---------------|
| | 2022 | 2021 |
| Stock options | \$ 122 | \$ — |
| RSUs | 643 | — |
| Time-based incentive units | 603 | 523 |
| Total | <u>\$ 1,368</u> | <u>\$ 523</u> |

Note 13. Stockholders' Equity

Preferred Stock

In connection with the IPO, the Company's amended and restated certificate of incorporation became effective, which authorized the issuance of 50,000,000 shares of undesignated preferred stock with a par value of \$0.001 per share with rights and preferences, including voting rights, designated from time to time by the Company's board of directors.

Common Stock

The Company has one class of common stock. In connection with the IPO, the Company's amended and restated certificate of incorporation became effective, which authorized the issuance of 500,000,000 shares of common stock with a par value of \$0.001 per share, with one vote per share. Holders of common stock are entitled to receive any dividends as may be declared from time to time by the Company's board of directors.

Note 14. Net Income Per Share

The following table sets forth the computation of basic and diluted net income per share and a reconciliation of the weighted average number of shares outstanding:

| | Three Months Ended March 31, | |
|--|-------------------------------------|-------------|
| | 2022 | 2021 |
| Numerator: | | |
| Net income attributable to a.k.a. Brands Holding Corp. | \$ 1,525 | \$ 1,472 |
| Denominator: | | |
| Weighted-average common shares outstanding, basic | 128,647,836 | 69,931,635 |
| Dilutive securities: | | |
| Stock options | — | — |
| RSUs | 5,585 | — |
| Weighted-average common shares outstanding, diluted | 128,653,421 | 69,931,635 |
| Net income per share: | | |
| Net income per share, basic | \$ 0.01 | \$ 0.02 |
| Net income per share, diluted | \$ 0.01 | \$ 0.02 |

Due to the reorganization transactions as described in Note 1, for periods prior to our IPO in September 2021, a split of units held by New Excelsior investors into a proportionate amount of shares of the Company's common stock is reflected in the weighted-average common shares outstanding. The Company used the two-class method in calculating net income per share historically, as it related to the outstanding incentive units. However, for all periods prior to the IPO, there were no potentially dilutive securities. Accordingly, basic and diluted earnings per share presented herein and on the condensed consolidated statements of income for all periods prior to the IPO are the same.

Basic net income per share is calculated by dividing net income attributable to a.k.a. Brands Holding Corp. for the period by the weighted-average number of shares of common stock for the period. Diluted net income per share has been calculated in a manner consistent with that of basic net income per share while giving effect to shares of potentially dilutive stock option and RSU grants outstanding during the period, if applicable.

Note 15. Commitments and Contingencies*Contingencies*

The Company records a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company also discloses material contingencies when it believes a loss is not probable but reasonably possible. Accounting for contingencies requires us to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. Although the Company cannot predict with assurance the outcome of any litigation or tax matters, it does not believe there are currently any such actions that, if resolved unfavorably, would have a material impact on the Company's operating results, financial position or cash flows.

Indemnifications

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to vendors, directors, officers and other parties with respect to certain matters. The Company has not incurred any material costs as a result of such indemnifications and has not accrued any liabilities related to such obligations in the consolidated financial statements.

Note 16. Related Party Transactions*Related Party Debt Financing*

In connection with the acquisition of Culture Kings (refer to Note 3 for additional information), on March 31, 2021, Polly Holdco Pty Ltd., a wholly-owned subsidiary of the Company, issued \$25.0 million in senior subordinated notes to an affiliate of Summit, a global investment firm who has a majority ownership interest in the Company. The senior subordinated notes were subsequently paid in full and terminated in connection with the IPO (refer to Note 8 for additional information).

Note 17. Subsequent Events

The Company has evaluated subsequent events occurring through May 10, 2022, the date that these financial statements were originally available to be issued, and determined that no subsequent events occurred that would require disclosure in these financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with the condensed consolidated financial statements and related notes that are included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements based upon current plans, expectations and beliefs that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements because of various factors, including those set forth in the sections captioned "Risk Factors" and "Forward-Looking Statements" and in other parts of this Quarterly Report on Form 10-Q. Our fiscal year ends on December 31.

Overview

Established in 2018, a.k.a. Brands is a brand accelerator of direct-to-consumer fashion brands for the next generation. Each brand in the a.k.a. portfolio is customer-led, curates quality exclusive merchandise, creates authentic and inspiring social content and targets a distinct Gen Z and Millennial audience. a.k.a. Brands leverages its next-generation retail platform to help each brand accelerate its growth, scale in new markets and enhance its profitability.

We founded a.k.a. with a focus on Millennial and Gen Z audiences who primarily shop for fashion on social media. We have since built a portfolio of five high-growth digital brands with distinct fashion offerings and consumer followings:

- In July 2018, we acquired Princess Polly, an Australian fashion brand focusing on fun, trendy dresses, tops, shoes and accessories with slim fit, body-confident and trendy fashion designs. The brand targets a female customer between the ages of 15 and 25. Princess Polly has successfully expanded in the U.S., growing U.S. sales by 80% in 2021 as compared to 2020.
- In August 2019, we acquired a controlling interest in Petal & Pup, an Australian fashion brand offering an assortment of trendy, flattering and feminine styles and dresses for special occasions. We acquired the remaining noncontrolling interest in tandem with our IPO. The brand targets female customers typically in their 20s or 30s, with more than half of customers in the 18-34-year-old age bracket. Since joining a.k.a., Petal & Pup has successfully expanded in the U.S., which was the brand's fastest growing market in 2021.
- In December 2019, we acquired U.S.-based Rebdolls. The brand offers apparel with a full range of sizes from 0 to 32 and emphasizes size inclusivity. The typical customer is a diverse woman between the ages of 18 and 34.
- In March 2021, we acquired a controlling interest in Culture Kings, an Australia-based premium online retailer of streetwear apparel, footwear, headwear and accessories. We acquired the remaining noncontrolling interest in tandem with our IPO. The brand targets male consumers between the ages of 18 and 35 who are fashion conscious, highly social and digitally focused.
- In October 2021, we acquired mml, an LA-based streetwear brand that offers competitively priced on-trend wardrobe staples. The brand targets male consumers between the ages of 18 and 35.

While we have owned Princess Polly, Petal & Pup and Rebdolls from before 2020, information presented hereafter on an "across a.k.a. Brands" basis assumes we also owned Culture Kings for all periods presented.

Initial Public Offering

In September 2021, we completed an initial public offering (the "IPO"), in which we issued and sold 10,000,000 shares of newly authorized common stock for \$11.00 per share for net proceeds of \$95.7 million, after deducting underwriting discounts and commissions of \$6.6 million, and offering costs of \$7.7 million.

Key Operating and Financial Metrics

Operating Metrics

We use the following metrics to assess the progress of our business, make decisions on where to allocate capital, time and technology investments and assess the near-term and longer-term performance of our business.

The following table sets forth our key operating metrics for each period presented:

| <i>(in millions, other than dollar figures)</i> | Three Months Ended March 31, | |
|---|------------------------------|-------|
| | 2022 | 2021 |
| Active customers | 3.8 | 1.6 |
| Active customers across a.k.a. Brands ⁽¹⁾ | 3.8 | 2.6 |
| Average order value | \$ 83 | \$ 78 |
| Average order value across a.k.a. Brands ⁽¹⁾ | \$ 83 | \$ 88 |
| Number of orders | 1.8 | 0.9 |
| Number of orders across a.k.a. Brands ⁽¹⁾ | 1.8 | 1.4 |

(1) Includes the impact of Culture Kings as if we had owned it for all periods presented.

Active Customers

We view the number of active customers as a key indicator of our growth, the value proposition and consumer awareness of our brand, and their desire to purchase our products. In any particular period, we determine our number of active customers by counting the total number of unique customer accounts who have made at least one purchase in the preceding 12-month period, measured from the last date of such period.

Average Order Value

We define average order value (“AOV”) as net sales in a given period divided by the total orders placed in that period. Average order value may fluctuate as we expand into new categories or geographies or as our assortment changes.

Key Financial Metrics

The following table sets forth our key GAAP and non-GAAP financial metrics for for each period presented:

| | Three Months Ended March 31, | |
|--|------------------------------|-----------|
| | 2022 | 2021 |
| Gross margin | 57% | 59 % |
| Net income (in thousands) | \$ 1,525 | \$ 1,790 |
| Net income margin | 1% | 3 % |
| Adjusted EBITDA (in thousands) | \$ 10,652 | \$ 8,326 |
| Adjusted EBITDA margin | 7 % | 12 % |
| Net cash (used in) provided by operating activities (in thousands) | \$ (14,903) | \$ 18,974 |
| Free cash flow (in thousands) | \$ (17,511) | \$ 18,677 |

Adjusted EBITDA, Adjusted EBITDA Margin and free cash flow are non-GAAP measures. See “Non-GAAP Financial Measures” for information regarding our use of Adjusted EBITDA, Adjusted EBITDA margin and free cash flow and their reconciliation to net income, net income margin and net cash (used in) provided by operating activities, respectively. See also “Components of Our Results of Operations” for more information.

Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, we monitor the following supplemental non-GAAP financial measures to evaluate our operating performance, identify trends, formulate financial projections and make strategic decisions on a consolidated basis. Accordingly, we believe that non-GAAP financial information, when taken collectively, may provide useful supplemental information to investors and others in understanding and evaluating our results of operations in the same manner as our management team. The non-GAAP financial measures are presented for supplemental informational purposes only. They should not be considered a substitute for financial information presented in accordance with GAAP, and may be different from similarly-titled non-GAAP measures used by other companies. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with GAAP. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

Adjusted EBITDA

Adjusted EBITDA does not represent net income or cash flow from operating activities as it is defined by GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. Because other companies may calculate EBITDA and Adjusted EBITDA differently than we do, Adjusted EBITDA may not be comparable to similarly titled measures reported by other companies. Adjusted EBITDA has other limitations as an analytical tool when compared to the use of net income, which we believe is the most directly comparable GAAP financial measure, including:

- Adjusted EBITDA does not reflect the interest income or expense we incur;
- Adjusted EBITDA does not reflect the provision for or benefit from income tax;
- Adjusted EBITDA does not reflect any attribution of costs to our operations related to our investments and capital expenditures through depreciation and amortization charges;
- Adjusted EBITDA does not reflect any transaction or debt extinguishment costs;
- Adjusted EBITDA does not reflect any amortization expense associated with fair value adjustments from purchase price accounting, including intangibles or inventory step-up; and
- Adjusted EBITDA does not reflect the cost of compensation we provide to our employees in the form of equity awards.

The following table reflects a reconciliation of Adjusted EBITDA to net income, the most directly comparable financial measure prepared in accordance with GAAP:

| <i>In thousands</i> | Three Months Ended March 31, | |
|--|-------------------------------------|-----------------|
| | 2022 | 2021 |
| Net income | \$ 1,525 | \$ 1,790 |
| Add: | | |
| Total other expense, net | 1,171 | 123 |
| Provision for income tax | 653 | 767 |
| Depreciation and amortization expense | 5,217 | 2,566 |
| Inventory step-up amortization expense | 707 | — |
| Equity-based compensation expense | 1,368 | 523 |
| Transaction costs | 11 | 2,557 |
| Adjusted EBITDA | <u>\$ 10,652</u> | <u>\$ 8,326</u> |
| Net income margin | 1 % | 3 % |
| Adjusted EBITDA margin | 7 % | 12 % |

Free Cash Flow

We calculate free cash flow as net cash (used in) provided by operating activities reduced by purchases of property and equipment. Management believes free cash flow is a useful measure of liquidity and an additional basis for assessing our ability to generate cash. There are limitations related to the use of free cash flow as an analytical tool, including: other companies may calculate free cash flow differently, which reduces its usefulness as a comparative measure; and free cash flow does not reflect our future contractual commitments nor does it represent the total residual cash flow for a given period.

The following table presents a reconciliation of free cash flow to net cash (used in) provided by operating activities, the most directly comparable financial measure prepared in accordance with GAAP:

| | Three Months Ended March 31, | |
|---|-------------------------------------|------------------|
| | 2022 | 2021 |
| Net cash (used in) provided by operating activities | \$ (14,903) | \$ 18,974 |
| Less: purchases of property and equipment | (2,608) | (297) |
| Free cash flow | <u>\$ (17,511)</u> | <u>\$ 18,677</u> |

Our free cash flow has fluctuated over time primarily as a result of timing of inventory purchases to support our rapid growth. While we have strong long-term relationships with our manufacturers, we usually pay for our inventory in advance. This supports our test and repeat buying model and helps with our ability to move new designs we receive from our suppliers into production and then into inventory in as few as 30-45 days. Our operating model requires a low level of capital expenditure.

For the three months ended March 31, 2022, free cash flow decreased by \$36.2 million compared to free cash flow for the three months ended March 31, 2021. This was attributable primarily to a build-up of inventory, the pay-down of payables and accruals and an increase in capital expenditures. The build-up of inventory was driven by Culture Kings' growth into the US. The pay-down of payables and accruals was primarily due to timing. The increase in capital expenditures was primarily due to the build-out of Culture Kings' new store in Las Vegas.

Factors Affecting Our Performance

Impact of COVID-19

The COVID-19 pandemic continued to impact our business and results of operations in the first quarter of fiscal year 2022. Certain of our supply chain partners, including third party manufacturers, logistics providers and other vendors continue to experience delays and shut-downs due to the COVID-19 pandemic, which have delayed, and are expected to continue to delay, shipments of products. As a result, we expect to continue to make increased use of more expensive air freight, which will continue to result in increased cost of goods. While we have been able to offset increased shipping prices to some extent, there can be no assurance that we will continue to be able to do so, or that prices for shipping services will not increase to a level that does not permit us to do so. We continue to monitor these delays and other potential disruptions in our supply chain and will implement mitigation plans as needed.

Although many government-imposed restrictions have been reduced or removed, the future impact of the COVID-19 pandemic continues to be highly uncertain. Consequently, our business and results of operations, including our net sales, earnings and cash flows, could continue to be adversely impacted, including as a result of:

- decreased consumer confidence and consumer spending habits, including spending for the merchandise that we sell, and negative trends in consumer purchasing patterns due to changes in consumers' disposable income, credit availability and debt levels;
- disruption to the supply chain caused by the pandemic affecting production, distribution and other logistical issues, including port closures and shipping backlogs;
- challenges filling staffing requirements at distribution centers and Culture Kings' retail stores due to labor shortages affecting retail businesses; and
- increased materials and procurement costs as a result of scarcity or increased prices of commodities and raw materials.

All of these factors have contributed to, and we expect will continue to contribute to, reduced orders, increased product returns, increased order cancellations, lower revenues, higher discounts, increased inventories, decreased value of inventories, reduced sales through Culture Kings experiential stores and lower gross margins.

Foreign Currency Rate Fluctuations

Our international operations have provided and are expected to continue to provide a significant portion of our Company's net sales and operating income. As a result, our Company's net sales and operating income will continue to be affected by changes in the U.S. dollar against international currencies, but predominantly against the Australian dollar. In order to provide a framework for assessing the performance of our underlying business, excluding the effects of foreign currency rate fluctuations, we compare the percent change in the results from one period to another period in this Quarterly Report on Form 10-Q using a constant currency methodology wherein current and comparative prior period results for our operations reporting in currencies other than U.S. dollars are converted into U.S. dollars at constant exchange rates (i.e., the rates in effect on December 31, 2021, which was the last day of our prior fiscal year) rather than the actual exchange rates in effect during the respective periods. Such disclosure throughout our management's discussion and analysis of financial condition and results of operations will be described as "on a constant currency basis." Volatility in currency exchange rates may impact the results, including net sales and operating income, of the Company in the future.

Results of Operations

The following tables set forth our results of operations for the periods presented and express the relationship of certain line items as a percentage of net sales for those periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

| <i>In thousands</i> | Three Months Ended March 31, | |
|--|------------------------------|-----------|
| | 2022 | 2021 |
| Net sales | \$ 148,319 | \$ 68,779 |
| Cost of sales | 64,123 | 28,191 |
| Gross profit | 84,196 | 40,588 |
| Operating expenses: | | |
| Selling | 40,364 | 18,254 |
| Marketing | 15,705 | 6,224 |
| General and administrative | 24,778 | 13,430 |
| Total operating expenses | 80,847 | 37,908 |
| Income from operations | 3,349 | 2,680 |
| Other expense, net: | | |
| Interest expense | (1,259) | (104) |
| Other income (expense) | 88 | (19) |
| Total other expense, net | (1,171) | (123) |
| Income before income taxes | 2,178 | 2,557 |
| Provision for income taxes | (653) | (767) |
| Net income | 1,525 | 1,790 |
| Net income attributable to noncontrolling interests | — | (318) |
| Net income attributable to a.k.a. Brands Holding Corp. | \$ 1,525 | \$ 1,472 |

| | Three Months Ended March 31, | |
|--|------------------------------|-------|
| | 2022 | 2021 |
| Net sales | 100 % | 100 % |
| Cost of sales | 43 % | 41 % |
| Gross profit | 57% | 59% |
| Operating expenses: | | |
| Selling | 27% | 27% |
| Marketing | 11% | 9% |
| General and administrative | 17 % | 20 % |
| Total operating expenses | 55 % | 55 % |
| Income from operations | 2% | 4% |
| Other expense, net: | | |
| Interest expense | (1%) | —% |
| Other income (expense) | — % | — % |
| Total other expense, net | (1 %) | — % |
| Income before income taxes | 1 % | 4 % |
| Provision for income taxes | — % | (1 %) |
| Net income | 1% | 3% |
| Net income attributable to noncontrolling interests | — % | — % |
| Net income attributable to a.k.a. Brands Holding Corp. | 1% | 2% |

Comparison of the Three Months Ended March 31, 2022 and 2021

Net Sales

| | Three Months Ended March 31, | |
|-----------|------------------------------|-----------|
| | 2022 | 2021 |
| Net sales | \$ 148,319 | \$ 68,779 |

Net sales increased by \$79.5 million, or 116%, for the three months ended March 31, 2022 compared to the same period in 2021. The overall increase in net sales was primarily driven by a 100% increase in the number of orders we processed in 2022 compared to 2021, driving an increase in sales of \$71.6 million. Additionally, an increase in our average order value of 6%, from \$78 in 2021 to \$83 in 2022, also contributed \$4.4 million to the overall increase in net sales. The increase in the number of orders was driven by the acquisition of Culture Kings and mmml, as well as the growth of Princess Polly in the U.S. The increase in our average order value was primarily due to the acquisition of Culture Kings, which has a higher AOV than our other brands. On a constant currency basis, net sales and average order value for the three months ended March 31, 2022 would have increased 121% and 8%, respectively. The three months ended March 31, 2022 includes the operations of Culture Kings and mmml, or \$59.5 million of net sales.

Cost of Sales

| | Three Months Ended March 31, | |
|----------------------|------------------------------|-----------|
| | 2022 | 2021 |
| Cost of sales | \$ 64,123 | \$ 28,191 |
| Percent of net sales | 43 % | 41 % |

Cost of sales increased by \$35.9 million, or 127%, for the three months ended March 31, 2022 compared to the same period in 2021. This increase was primarily driven by a 100% increase in the total number of orders we processed in 2022, as compared to 2021, which includes the impact of the operations of Culture Kings and mmml, or \$28.4 million of cost of sales, in the three months ended March 31, 2022. The increase in cost of sales as a percentage of net sales was due to higher air freight expense, the inclusion of Culture Kings and the \$0.7 million impact from the fair value increase in inventory acquired in the mmml acquisition. Culture Kings has a lower mix of exclusive products compared to our overall portfolio. Exclusive products have a higher gross margin compared to other products we sell.

Gross Profit

| | Three Months Ended March 31, | |
|--------------|------------------------------|-----------|
| | 2022 | 2021 |
| Gross profit | \$ 84,196 | \$ 40,588 |
| Gross margin | 57 % | 59 % |

Gross profit increased by \$43.6 million, or 107%, for the three months ended March 31, 2022 compared to the same period in 2021. This increase was primarily driven by a 116% increase in net sales. The decrease in gross margin was primarily due to higher air freight expense and the inclusion of Culture Kings. Culture Kings has a lower mix of exclusive products compared to our overall portfolio. Exclusive products have a higher gross margin compared to other products we sell.

Selling Expenses

| | Three Months Ended March 31, | |
|----------------------|------------------------------|-----------|
| | 2022 | 2021 |
| Selling | \$ 40,364 | \$ 18,254 |
| Percent of net sales | 27 % | 27 % |

Selling expenses increased by \$22.1 million, or 121%, for the three months ended March 31, 2022 compared to the same period in 2021. This increase was driven by the 100% increase in the number of orders shipped, and the operations of Culture Kings and mmml, or \$15.5 million of selling expenses, in the three months ended March 31, 2022.

Marketing Expenses

| | Three Months Ended March 31, | |
|----------------------|------------------------------|----------|
| | 2022 | 2021 |
| Marketing | \$ 15,705 | \$ 6,224 |
| Percent of net sales | 11 % | 9 % |

Marketing expenses increased by \$9.5 million, or 152%, for the three months ended March 31, 2022 compared to the same period in 2021. The increase in marketing expenses was driven by the operations of Culture Kings and mmml, or \$6.9 million of marketing expenses, in the three months ended March 31, 2022 and increased marketing investment to acquire customers and retain existing customers to generate higher net sales. The increase in marketing expenses as a percentage of net sales was primarily due to Culture Kings' higher rate of advertising spend and an increase in Princess Polly's customer acquisition cost as both brands tested new marketing opportunities.

General and Administrative Expenses

| | Three Months Ended March 31, | |
|----------------------------|------------------------------|-----------|
| | 2022 | 2021 |
| General and administrative | \$ 24,778 | \$ 13,430 |
| Percent of net sales | 17 % | 20 % |

General and administrative expenses increased by \$11.3 million, or 84%, for the three months ended March 31, 2022 compared to the same period in 2021. The increase was primarily driven by the operations of Culture Kings and mmml, or \$7.4 million of general and administrative expenses, in the three months ended March 31, 2022, a \$3.3 million increase in salaries and related benefits and equity-based compensation expense related to increases in our headcount across functions to support business growth and \$2.1 million in additional insurance and professional service fees, partially offset by a \$2.5 million decrease in transaction costs. The decrease in general and administrative expenses as a percentage of net sales resulted primarily from a decrease in transaction costs.

Other expense, net

| | Three Months Ended March 31, | |
|--------------------------|------------------------------|----------|
| | 2022 | 2021 |
| Other expense, net: | | |
| Interest expense | \$ (1,259) | \$ (104) |
| Other income (expense) | 88 | (19) |
| Total other expense, net | \$ (1,171) | \$ (123) |
| Percent of net sales | (1)% | 0 % |

Other expense, net increased by \$1.0 million for the three months ended March 31, 2022 compared to the same period in 2021, primarily due to interest expense related to our senior secured credit facilities.

Provision for income taxes

| | Three Months Ended March 31, | |
|----------------------------|------------------------------|----------|
| | 2022 | 2021 |
| Provision for income taxes | \$ (653) | \$ (767) |
| Percent of net sales | — % | (1 %) |

Provision for income tax decreased by \$0.1 million, or 15% for the three months ended March 31, 2022 compared to the same period in 2021. This decrease was due to a reduction in our income before income taxes.

Liquidity and Capital Resources

Since our inception through September 2021, we have financed our operations and capital expenditures primarily through cash flows generated by operations, private sales of equity securities or the incurrence of debt.

In September 2021, we completed an initial public offering (the "IPO"), in which we issued and sold 10,000,000 shares of newly authorized common stock for \$11.00 per share for net proceeds of \$95.7 million, after deducting underwriting discounts and commissions of \$6.6 million, and offering costs of \$7.7 million.

As of March 31, 2022, our principal sources of liquidity were cash and cash equivalents totaling \$41.2 million. Our cash equivalents primarily consist of money market funds.

As of March 31, 2022, most of our cash was held for working capital purposes. We believe that our existing cash, together with cash generated from operations and available borrowing capacity under our line of credit, will be sufficient to meet our anticipated cash needs for the next 12 months. We believe that cash generated from ongoing operations and continued access to debt markets will be sufficient to satisfy our cash requirements beyond 12 months. However, our liquidity assumptions may prove to be incorrect, and we could exhaust our available financial resources sooner than we currently expect. We may seek to borrow funds under our line of credit or raise additional funds at any time through equity, equity-linked or debt financing arrangements. Our future capital requirements and the adequacy of available funds will depend on many factors, including those described in the section of our Annual Report on Form 10-K captioned "Risk Factors." We may not be able to secure additional financing to meet our operating requirements on acceptable terms, or at all. The inability to raise capital if needed would adversely affect our ability to achieve our business objectives.

Senior Secured Credit Facilities

On March 31, 2021, we entered into senior secured credit facilities with syndicated lenders and an affiliate of Fortress Credit Corp as administrative agent that provided us with up to \$25.0 million aggregate principal in revolver borrowings and a \$125.0 million senior secured term loan facility (the "Fortress Credit Facilities") that we used in financing our acquisition of Culture Kings. The \$125.0 million senior secured term loan required us to make amortized quarterly payments equal to 0.75% of the original principal amounts, for an annual aggregate amount of 3.0%. Borrowings under the credit agreement accrued interest, at the option of the borrower, at an adjusted LIBOR plus 7.5% or ABR plus 6.5%, subject to adjustment based on achieving certain total net secured leverage ratios.

In connection with the IPO, we entered into a new senior secured credit facility inclusive of a \$100.0 million term loan and a \$50.0 million revolving line of credit, with an option of up to \$50.0 million in additional term loan through an accordion provision. We used borrowings under this new credit facility together with a portion of the proceeds from the IPO, to repay the Fortress Credit Facilities in full. As of March 31, 2022, the Company owes a combined \$109.4 million in term loan and accordion borrowings, as well as \$25.0 million borrowed under the revolving line of credit. The term loan requires us to make amortized annual payments of 5.0% during the first and second years, 7.5% during the third and fourth years and 10.0% during the fifth year with the balance of the loan due at maturity. Borrowings under the term loan accrue interest at a benchmark rate plus an applicable margin dependent upon our net leverage ratio. The revolving line of credit accrues interest at a benchmark rate plus an applicable margin dependent upon our net leverage ratio. The highest interest rates under the agreement for both the term loan and revolving line of credit occur at a net leverage ratio of greater than 2.75x, yielding an interest rate of a benchmark rate plus 3.25%. The accordion provision allows us to borrow additional amounts of term loan at terms to be agreed upon at the time of issuance, but on substantially the same basis as the original term loan. Principal payments of our term loan and accordion for the next twelve months are anticipated to total \$5.6 million.

As part of our entering into the new senior secured credit facilities, we are subject to certain financial covenant ratios and certain annual mandatory prepayment terms based on excess cash flows, as defined by the credit agreement, based on our net leverage ratio for years beginning with the fiscal year ending December 31, 2022. If we are unable to comply with certain financial covenant ratios and terms requiring mandatory prepayment based on a percentage of excess cash flows, our long-term liquidity position may be adversely impacted. Furthermore, the variable interest rates associated with our new senior secured credit facilities could result in interest payments that are higher than anticipated.

Refer to Note 8 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information regarding our senior secured credit facilities.

Lines of Credit

On November 6, 2018, we entered into a line of credit with Commonwealth Bank of Australia in the amount of \$7 million under the subsidiary Princess Polly Bidco Pty. The line of credit was amended on August 1, 2019 to increase the facility amount to \$15.6 million. Borrowings under the credit agreement accrued an interest rate of AU Screen Rate (ASX) + 3.25% per annum. Obligations under the credit agreement were secured by cash, inventory and other liquid assets. As of December 31, 2020, the amount outstanding was \$6.2 million. The facility was repaid in full and terminated as of February 28, 2021.

On December 31, 2019, we entered into a line of credit with Bank of America in the amount of \$0.5 million under the subsidiary Rebdoll, Inc. The line of credit was guaranteed by Excelerate, L.P. Borrowings under the credit agreement accrued an interest rate of LIBOR + 2.25%. As of December 31, 2020, the amount outstanding was \$0.2 million. The outstanding borrowings were repaid in full and the line of credit was terminated as of February 28, 2021.

On October 25, 2019, we entered into a line of credit with Moneytech in the amount of \$2.8 million under the subsidiary Petal & Pup Pty Ltd. Borrowings under the credit agreement accrued an interest rate of 7.27%. The line of credit was terminated in February 2021.

Material Cash Requirements

There have been no significant changes in our material cash requirements from those reported in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on March 1, 2022 (the “Annual Report”) for the year ended December 31, 2021.

Historical Cash Flows

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2022 | 2021 |
| Net cash (used in) provided by operating activities | \$ (14,903) | \$ 18,974 |
| Net cash used in investing activities | (4,703) | (226,022) |
| Net cash provided by financing activities | 22,337 | 219,743 |

Net Cash (Used In) Provided by Operating Activities

Cash from operating activities consists primarily of net income adjusted for certain non-cash items, including depreciation, amortization, equity-based compensation, the effect of changes in working capital and other activities.

During the three months ended March 31, 2022, as compared to the same period in 2021, net cash (used in) provided by operating activities decreased \$33.9 million. This was attributable primarily to a build-up of inventory and the pay-down of payables and accruals. The build-up of inventory was driven by CK’s growth into the US. The pay-down of payables and accruals was primarily due to timing.

Net Cash Used in Investing Activities

Our primary investing activities have consisted of acquisitions to support our overall business growth and investments in our fulfillment centers and our internally developed software to support our infrastructure. Purchases of property and equipment may vary from period to period due to timing of the expansion of our operations.

During the three months ended March 31, 2022, as compared to the same period in 2021, net cash used in investing activities decreased \$221.3 million. This was attributable to the acquisition of Culture Kings in March 2021.

Net Cash Provided by Financing Activities

Our financing activities have historically consisted of cash proceeds received from the issuance of borrowings, cash used to pay down borrowings or cash received in exchange for partner units, and more recently, the sale of our common stock in the IPO.

During the three months ended March 31, 2022, as compared to the same period in 2021, net cash provided by financing activities decreased \$197.4 million. This was primarily attributable to the proceeds received from debt issuances and from the issuance of partner units to acquire Culture Kings in March 2021. Offsetting the 2021 activity is \$25.0 million in proceeds from the revolving line of credit in 2022.

Critical Accounting Estimates

We believe that the following accounting estimates involve a high degree of judgment and complexity. Refer to Note 2 to our audited consolidated financial statements and the related notes thereto for the years ended December 31, 2021, 2020 and 2019, included in our Annual Report on Form 10-K, for a description of our significant accounting policies. The preparation of our financial statements in conformity with GAAP requires us to make estimates and judgments that affect the amounts reported in those financial statements and accompanying notes. Although we believe that the estimates we use are reasonable, due to the inherent uncertainty involved in making those estimates, actual results reported in future periods could differ from those estimates.

Revenue Recognition

Our primary source of revenues is from sales of fashion apparel primarily through our digital platforms and stores. We determine revenue recognition through the following steps in accordance with Topic 606:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, we satisfy a performance obligation.

Revenue is recognized upon shipment when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Our revenue is reported net of sales returns and discounts. We estimate our liability for product returns based on historical return trends and an evaluation of current economic and market conditions, all of which have a degree of uncertainty. We record the expected customer refund liability as a reduction to revenue, and the expected inventory right of recovery as a reduction of cost of goods sold. If actual return costs differ from previous estimates, the amount of the liability and corresponding revenue are adjusted in the period in which such costs occur. We have not made any material changes to our assumptions included in our calculations of expected customer refund activity during the three months ended March 31, 2022.

Inventory

Inventories are stated at the lower of cost and net realizable value. Cost is determined using an average cost method. Cost of inventory includes import duties and other taxes and transport and handling costs to deliver the inventory to our distribution centers or stores. We write down inventory where it appears that the carrying cost of the inventory may not be recovered through subsequent sale of the inventory. We analyze the quantity of inventory on hand, the quantity sold in the past year, the anticipated sales volume, the expected sales price and the cost of making the sale when evaluating the value of our inventory. If the sales volume or sales price of specific products declines, additional write-downs may be required. We have not made any material changes to our assumptions included in the calculations of the lower of cost or net realizable value reserves during the three months ended March 31, 2022.

Goodwill and Impairment of Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. The primary drivers that generate goodwill are the value of synergies between the acquired entities and the Company and the acquired assembled workforce, neither of which qualifies as a separately identifiable intangible asset.

Goodwill is tested for impairment at least annually, in the fourth quarter and whenever changes in circumstances indicate an impairment may exist. The goodwill impairment test is performed at the reporting unit level, which is generally at the level of or one level below an operating segment. Generally, a qualitative assessment is first performed to determine whether a quantitative goodwill impairment test is necessary. If management determines, after performing an assessment based on the qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, or that a fair value of the reporting unit substantially in the excess of the carrying amount cannot be assured, then a quantitative goodwill impairment test would be required. The quantitative test for goodwill impairment is performed by determining the fair value of the related reporting units. Fair value is measured based on the discounted cash flow method and relative market-based approaches. An impairment charge is recorded equal to any shortfall between the fair value of a reporting unit and its carrying value.

The carrying value of definite-lived intangible assets is reviewed whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, the Company would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates the carrying value of the asset group is not recoverable, the Company will estimate the fair value of the asset group using the discounted cash flow method. Any impairment would be measured as the difference between the asset group's carrying amount and its estimated fair value.

Significant judgment and estimates are required in assessing impairment of goodwill and intangible assets, including identifying whether events or changes in circumstances require an impairment assessment, estimating future cash flows and determining appropriate discount rates. Our estimates of fair value are based on assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. No goodwill or intangible asset impairment was recorded for the three months ended March 31, 2022.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are recorded net on the face of the balance sheet. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. This assessment involves uncertainty and judgment. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We have not made any material changes to our assumptions and estimates related to our income tax positions during the three months ended March 31, 2022.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations within the United States and internationally, and we are exposed to market risks in the ordinary course of our business, including the effects of foreign currency fluctuations, interest rate changes and inflation. Information relating to quantitative and qualitative disclosures about these market risks is set forth below.

Interest Rate Sensitivity

Cash and cash equivalents are held primarily in cash deposits and money market funds. The fair value of our cash and cash equivalents would not be significantly affected by either an increase or decrease in interest rates due mainly to the short-term nature of these instruments. Interest on any line of credit borrowings incurred pursuant to the credit described above would accrue at a floating rate based on a formula tied to certain market rates at the time of incurrence; however, we do not expect that any change in prevailing interest rates will have a material impact on our results of operations. As of March 31, 2022, we had approximately \$109.4 million in debt outstanding under our term loan. Based on the levels of borrowings under our new senior secured credit facility at March 31, 2022, a hypothetical 100 basis point increase or decrease in underlying interest rates would increase or decrease interest expense by approximately \$1.0 million. This hypothetical analysis may differ from the actual change in interest expense due to potential changes in interest rates or gross borrowings outstanding under our credit facilities. We do not utilize derivative financial instruments to manage our interest rate risks.

Foreign Currency Risk

We are exposed to fluctuations in currency exchange rates as a result of our operations in countries other than the U.S., principally related to our significant operations in Australia. As of March 31, 2022, movements in currency exchange rates and the related impact on the translation of the balance sheets resulted in the \$14.4 million net gain in the currency translation category of accumulated other comprehensive income (loss). A hypothetical 10% increase or decrease in the Australian dollar exchange rate could have resulted in a \$47.8 million foreign currency translation fluctuation, which would be recorded in accumulated other comprehensive loss in the condensed consolidated balance sheets.

Additionally, a portion of our sales and costs are earned and incurred, respectively, in USD for subsidiaries that use AUD as their functional currency. These sales and costs generate a foreign currency exposure. Furthermore, we have various assets and liabilities, primarily cash and intercompany receivables and payables, denominated in USD where the functional currency is AUD. These balance sheet items are subject to remeasurement which may create fluctuations in other expense within our consolidated statements of income. For the three months ended March 31, 2022, movements in currency exchange rates resulted in a \$0.1 million net gain in other expense.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. This evaluation is performed to determine whether our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Due to the material weaknesses described below, our chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2022. In light of this fact, our management has performed additional analyses, reconciliations, and other post-closing procedures and has concluded that, notwithstanding the material weaknesses in our internal control over financial reporting, the consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

Material Weaknesses

As disclosed in our Annual Report, we identified two material weaknesses in the design and operation of our internal control over financial reporting in connection with the preparation of our financial statements that had not been remediated as of December 31, 2021. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. The Company's management, including our chief executive officer and chief financial officer concluded that, as of December 31, 2021:

- We have not sufficiently designed, implemented and documented internal controls at the entity level and across key business and financial processes to allow us to achieve complete, accurate and timely financial reporting.
- We have not designed and implemented controls to maintain appropriate segregation of duties in our manual and information technology-based business processes.

Remediation Status of Material Weaknesses

Material weakness related to the design, implementation and documentation of internal controls at the entity level and across key business and financial process.

We have taken numerous steps to address the underlying causes of this material weakness. We have hired additional experienced financial reporting personnel and put new processes in place to achieve complete, accurate and timely financial reporting. We have also hired a third-party consulting firm with expertise to help us design, implement and document our internal controls across the organization.

Material weakness related to appropriate segregation of duties in our manual and IT-based business processes.

We have commenced a process to (i) identify key systems and processes that require improved documentation, (ii) implement enhanced standards designed to meet the requirements of the Sarbanes-Oxley Act for segregation of duties, (iii) review the design of applicable internal controls and assess any required amendments and (iv) increase the training of accounting and finance staff in relevant areas.

While progress has been made to remediate both of the material weaknesses above, as of March 31, 2022, we are still in the process of developing and implementing the enhanced processes and procedures and testing the operating effectiveness of these improved controls. We believe our actions will be effective in remediating the material weaknesses, and we continue to devote significant time and attention to these efforts. In addition, the material weaknesses will not be considered remediated until the applicable remedial processes and procedures have been in place for a sufficient period of time and management has concluded, through testing, that these controls are effective. Accordingly, the material weaknesses above are not remediated as of March 31, 2022.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Report on Internal Control over Financial Reporting

This Quarterly Report on Form 10-Q does not include a report of management's assessment regarding internal control over financial reporting as permitted in this transition period under the rules of the SEC for newly public companies.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to legal proceedings which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these legal proceedings will not have a material adverse impact on our financial position or results of operations and cash flows. While we currently believe that the ultimate outcome of such legal proceedings, individually and in the aggregate, will not have a material adverse effect on our financial position or results of operations, litigation is subject to inherent uncertainties. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on our results of operations in the period in which the ruling occurs. The estimate of the potential impact from such legal proceedings on our financial position or results of operations could change in the future.

ITEM 1A. RISK FACTORS

Reference is made to the information disclosed under Part I, Item 1A - "Risk Factors" in our Annual Report, which contains a detailed discussion of certain risk factors that could materially adversely affect the Company's business, operating results and/or financial condition. There are no material changes to the risk factors previously disclosed, nor has the Company identified any previously undisclosed risks that could materially adversely affect the Company's business, operating results and/or financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following exhibits are filed herewith or incorporated by reference herein:

| Exhibit No. | Description |
|--------------------|--|
| 3.1 | Amended and Restated Certificate of Incorporation of a.k.a. Brands Holding Corp., filed with the Delaware Secretary of State on September 21, 2021 (incorporated by reference to Exhibit 3.1 to a.k.a. Brands Holding Corp.'s Current Report on Form 8-K (File No. 001-40828), filed with the Securities and Exchange Commission on September 27, 2021). |
| 3.2 | Amended and Restated Bylaws of a.k.a. Brands Holding Corp., effective September 21, 2021 (incorporated by reference to Exhibit 3.2 to a.k.a. Brands Holding Corp.'s Current Report on Form 8-K (File No. 001-40828), filed with the Securities and Exchange Commission on September 27, 2021). |
| 4.1 | Registration Rights Agreement, dated September 24, 2021, by and among a.k.a. Brands Holding Corp. and the other signatories party thereto (incorporated by reference to Exhibit 4.1 to a.k.a. Brands Holding Corp.'s Current Report on Form 8-K (File No. 001-40828), filed with the Securities and Exchange Commission on September 27, 2021). |
| 10.1 | Director Nomination Agreement, dated as of September 24, 2021, by and among the Company and the other signatories party thereto (incorporated by reference to Exhibit 10.1 to a.k.a. Brands Holding Corp.'s Current Report on Form 8-K (File No. 001-40828), filed with the Securities and Exchange Commission on September 27, 2021). |
| 10.2 | Syndicated Facility Agreement, dated as of September 24, 2021, by and among the Company, KeyBank National Association and the other signatories party thereto (incorporated by reference to Exhibit 10.2 to a.k.a. Brands Holding Corp.'s Current Report on Form 8-K (File No. 001-40828), filed with the Securities and Exchange Commission on September 27, 2021). |
| 10.3 | Form of Indemnification Agreement (incorporated by reference to Exhibit 10.3 to a.k.a. Brands Holding Corp.'s Registration Statement on Form S-1 (File No. 333-259028), filed with the Securities and Exchange Commission on August 24, 2021). |
| 10.4 | a.k.a. Brands Holding Corp. 2021 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to a.k.a. Brands Holding Corp.'s Registration Statement on Form S-8 (File No. 333-259753), filed with the Securities and Exchange Commission on September 23, 2021). |
| 10.5 | a.k.a. Brands Holding Corp. 2021 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.5 to a.k.a. Brands Holding Corp.'s Registration Statement on Form S-8 (File No. 333-259753), filed with the Securities and Exchange Commission on September 23, 2021). |
| 10.6 | Form of Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.6 to a.k.a. Brands Holding Corp.'s Registration Statement on Form S-1 (File No. 333-259028), filed with the Securities and Exchange Commission on August 24, 2021). |
| 10.7 | Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.7 to a.k.a. Brands Holding Corp.'s Registration Statement on Form S-1 (File No. 333-259028), filed with the Securities and Exchange Commission on August 24, 2021). |
| 10.8 | Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.8 to a.k.a. Brands Holding Corp.'s Registration Statement on Form S-1 (File No. 333-259028), filed with the Securities and Exchange Commission on August 24, 2021). |
| 31.1* | Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2* | Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1** | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2** | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS* | Inline XBRL Instance Document. |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema Document. |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB* | Inline XBRL Taxonomy Extension Labels Linkbase Document. |
| 101.PRE* | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| 104* | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101). |

* Filed herewith.

** Furnished herewith. The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the SEC and are not to be incorporated by reference into any filing of the Company under the Securities Act or the Exchange Act, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

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 thereunto duly authorized.

a.k.a. Brands Holding Corp.

Date: May 10, 2022

By: /s/ Ciaran Long
Name: Ciaran Long
Title: Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT OF 1934 RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jill Ramsey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of a.k.a. Brands Holding Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [Omitted];
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

a.k.a. Brands Holding Corp.

Date: May 10, 2022

By: /s/ Jill Ramsey
Name: Jill Ramsey
Title: Chief Executive Officer and Director
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT OF 1934 RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ciaran Long, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of a.k.a. Brands Holding Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [Omitted];
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

a.k.a. Brands Holding Corp.

Date: May 10, 2022

By: /s/ Ciaran Long
Name: Ciaran Long
Title: Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jill Ramsey, Chief Executive Officer of a.k.a. Brands Holding Corp., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of a.k.a. Brands Holding Corp. for the quarter ended March 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of a.k.a. Brands Holding Corp.

a.k.a. Brands Holding Corp.

Date: May 10, 2022

By: /s/ Jill Ramsey
Name: Jill Ramsey
Title: Chief Executive Officer and Director
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ciaran Long, Chief Financial Officer of a.k.a. Brands Holding Corp., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of a.k.a. Brands Holding Corp. for the quarter ended March 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of a.k.a. Brands Holding Corp.

a.k.a. Brands Holding Corp.

Date: May 10, 2022

By: /s/ Ciaran Long
Name: Ciaran Long
Title: Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)