

DPW Holdings Reports Third Quarter Financial Results

November 20, 2019

NEWPORT BEACH, Calif.--(BUSINESS WIRE)--Nov. 20, 2019-- DPW Holdings, Inc. (NYSE American: DPW), a diversified holding company ("DPW" or the "Company"), reported financial results for its third quarter and the nine-month period ended September 30, 2019 on its Form 10-Q with the Securities and Exchange Commission today.

Highlights

- Revenue of \$19.5 million for the nine months ended September 30, 2019
- Total assets of \$47.4 million as of September 30, 2019
- Year-to-date gross profit up 7% from prior year period
- Q3 2019 sees a realization of a \$1.1 million improvement in interest expense
- Current liabilities reduced by \$5.6 million or 18% from year-end 2018, excluding the \$741,433 operating lease liability related to the new lease accounting rules implemented in 2019

Revenues

Our revenues decreased by \$1,963,259, or 23.5%, to \$6,381,663 for the three months ended September 30, 2019, from \$8,344,922 for the three months ended September 30, 2018. The decrease from the three months ended September 30, 2018, was due to a decrease in revenue from our restaurant operations, the manufacture of the Multiplex Laser Surface Enhancement ("MLSE") plasma-laser system and from our cryptocurrency mining operations and, to a lesser extent, a decrease in revenue from customized solutions for the military markets caused by temporary shortages in components required for the manufacture of these solutions.

Revenues, cryptocurrency mining

In January 2018, we formed Digital Farms, Inc. ("Digital Farms"), a wholly owned subsidiary formerly known as Super Crypto Mining, Inc. Digital Farms was established to operate our cryptocurrency business, which is pursuing a variety of digital currencies. We are mining the top three cryptocurrencies for our own account, consisting of Bitcoin, Litecoin and Ethereum. Although the market prices of digital currencies were significantly higher during the three months ended September 30, 2019 compared to the prior-year period, due to power cost considerations, we reduced the number of active miners from 1,512 in the prior year period to 978 during the current quarter. These factors, coupled with a significant increase in the difficulty factor, which increased as market prices of digital currencies did and more computational power was added to the network during the period, resulted in a decrease in revenues of \$282,993.

Revenues, related party

During the three months ended September 30, 2018, we recognized \$352,496 in revenues from our purchase order with MTIX Limited, a company formed under the laws of England and Wales ("MTIX"). Due to working capital constraints discussed below, we did not recognize any revenues from MTIX during the three months ended September 30, 2019. MTIX was acquired by Avalanche International Corporation, a related party, on August 22, 2017. In March 2017, the Company was awarded a purchase order by MTIX to manufacture, install and service the MLSE plasma-laser system. Over the next several years, management believes that the MLSE purchase order will be a source of revenue and generate significant cash flows. The lack of revenue during the three months ended September 30, 2019, was due to an emphasis on reducing the debt obligations incurred in May 2018 to acquire Enertec Systems 2001 Ltd. ("Enertec"). Payments, and the related manufacturing services, that otherwise would have gone to subcontractors of the MLSE plasma-laser system have been delayed in order to enable us to restructure and reduce our overall debt obligations.

Gross Margins

Gross margins increased to 27.3% for the three months ended September 30, 2019 compared to 24.3% for the three months ended September 30, 2018. The Company's gross margins have typically ranged between 33% and 37%, with slight variations depending on the overall composition of our revenue. Our gross margins during the three months ended September 30, 2018, of 24.3%, were affected by the negative margins on revenues of \$307,172 at Digital Farms. The negative gross margins at Digital Farms resulted from monthly recurring fixed costs at our colocation facilities which temporarily exceeded the revenues from our mining operations. Excluding the effects of Digital Farms, then our adjusted gross margins for the three months ended September 30, 2018, would have been 38.9%, slightly higher than our historical range prior to our launch of Digital Farms. The increase is mainly attributable to higher gross margins related to our restaurant operations.

The Company also reported that its order backlog was \$70.7 million, including \$46 million of related party backlog (related-party backlog is delinquent in the production schedule). Digital Power Corp. which includes Power-Plus Technical Distributors, LLC and Digital Power, Ltd. (aka "Gresham Power") had an order backlog of \$4.4M while Microphase posted an order backlog of \$7.5M as Enertec reduced its order backlog to \$12.8M.

Impairment of Property and Equipment

Under the guidance of ASC 360, Impairment or Disposal of Long-lived Assets, a long-lived asset or asset group (including intangibles) will be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Based upon the significant decline in the price of bitcoin during the nine months ended September 30, 2019 and the decline in projected cash flows over the life of the cryptocurrency machines, the Company performed an undiscounted cash flow test to determine if the cryptocurrency machines were impaired. The undiscounted cash flows were less than the carrying amount of the Company's cryptocurrency machines and therefore, the carrying amount of the assets were compared to the fair value of the cryptocurrency machines, and the Company determined that there were impairment charges to be recorded on the cryptocurrency machines. Impairment charges for the nine months ended September 30, 2019 totaled approximately \$4,315,856.

Operating Loss

The Company recorded an operating loss of \$7,970,036 for the three months ended September 30, 2019, compared to an operating loss of

\$4,187,845 for the three months ended September 30, 2018. The increase in operating loss is mostly attributable to the impairment of property and equipment coupled with an increase in engineering and product development expense partially offset by higher gross profit and lower selling and marketing expense and general and administrative expenses expense.

Interest Expense

Interest expense was \$2,954,843 for the three months ended September 30, 2019 compared to \$4,072,539 for the three months ended September 30, 2018. The decrease in interest expense for the three months ended September 30, 2019 is primarily related to a reduction of amortization of debt discount resulting from original issue discount from the issuance of warrants in conjunction with the sale of debt instruments. During the three months ended September 30, 2019 and 2018, as a result of these issuances, non-cash interest expense of \$1,357,845 and \$3,033,864, respectively, was recorded from the amortization of debt discount and debt financing costs.

Geographic Segment Reporting

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

For the three-month periods ended September 30:

	2019	2018
Revenues:		
North America	\$ 4,040,664	\$ 5,166,899
Middle East	1,869,647	2,156,106
Europe	253,747	693,725
Other	217,605	328,192
Total revenues	\$ 6,381,663	\$ 8,344,922

During the three months ended September 30, 2019 and 2018, our reported net loss included non-cash charges of \$6,390,242 and \$4,709,663, respectively. A summary of these non-cash charges is as follows:

	2019	2018
Interest expense – debt discount	\$ 1,357,845	\$ 3,033,864
Stock-based compensation	361,779	1,352,640
Depreciation and amortization	947,830	917,152
Impairment of property and equipment	4,315,856	—
Amortization of right-of-use assets	199,260	—
Accretion of original issue discount on notes receivable – related party	(607,356)	(593,993)
Accretion of original issue discount on notes receivable	(19,132)	—
Change in fair value of warrant liability	(165,840)	—
Non-cash items included in net loss	\$ 6,390,242	\$ 4,709,663

DPW's CEO and Chairman, Milton "Todd" Ault, III said, "The first nine months of 2019 have been challenging as we reduced our short-term debt, which adversely impacted our working capital. We have successfully reduced our short-term liabilities by \$5.6 million, resulting in lower interest expense. Interest expense for the quarter was \$1.1 million lower than the corresponding period of the prior year and the Company has achieved an increase in gross profit for the first nine months of 2019 compared to the first nine months of 2018. We are very pleased with our progress as we strive to improve our capital structure, cashflow and overall performance. There are three important indicators that stockholders and investors should pay

attention to; first, the dramatic reduction of outstanding debt; second, the improvement in gross margins and third, lower debt service costs.”

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

The Company will provide an investor update presentation, discussing key strategic initiatives on December 19, 2019 at 2:00 p.m. Pacific Standard Time. Webcast and dial-in information will be announced prior to the date of the presentation.

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

About DPW Holdings, Inc.

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

Forward-Looking Statements

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

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