



Motorcar Parts of America Reports Fiscal 2020 First Quarter Results

August 8, 2019

-- Record Sales for a First Quarter; Fiscal Year to Benefit From Growth in Existing and New Product Lines, with Improving Financial Metrics

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LOS ANGELES, Aug. 08, 2019 (GLOBE NEWSWIRE) -- Motorcar Parts of America, Inc. (**Nasdaq: MPAA**) today reported results for its fiscal 2020 first quarter ended June 30, 2019 -- reflecting record sales for a fiscal first quarter, and expectations for continued top-line growth and sequential margin and operating cash flow improvement as fiscal 2020 evolves.

Net sales for the fiscal 2020 first quarter increased 19.1 percent to \$109.1 million from \$91.7 million for the same period a year earlier, reflecting sales increases for both hard parts and diagnostic products.

Adjusted net sales for the fiscal 2020 first quarter increased 15.7 percent to \$108.6 million from \$93.8 million a year earlier.

"We achieved record sales in our hard parts categories for a first quarter, despite relative softness throughout the industry during this period. The company's sales growth for both existing and new product lines is expected to gain momentum throughout fiscal 2020, and should further accelerate later in the fiscal year. Notwithstanding the short-term impact to profitability, related to new business costs and transition expenses associated with our expansion in Mexico and Malaysia, our investment to position the company as a leading supplier of multiple non-discretionary hard parts is transformational. This will become increasingly evident as the fiscal year evolves.

"Equally exciting, we expect our emerging diagnostic and testing equipment business, which includes applications for rotating electrical, electric vehicles and aerospace, to provide further growth opportunities, with favorable economics as the business gains traction. In summary, the outlook remains favorable, our customer relationships are strong and we expect solid value creation as a result of our strategic investments," said Selwyn Joffe, chairman, president and chief executive officer.

The results for the quarter and gross margin were primarily impacted by four items totaling \$8.5 million.

- Non-cash expenses of \$5.7 million, including a write-down of \$4.6 million associated with the quarterly revaluation for cores on customers' shelves, and \$1.1 million of amortization related to the premium for core buy backs.
- Transition costs of \$1.4 million associated with the move into the new Mexico facilities to support the growth in sales.
- Net tariff costs of \$1.1 million for products sold before cost increases were passed through to customers.
- Cost accrual of \$426,000 related to a pending resolution of a previously cancelled customer contract.

Net loss for the fiscal 2020 first quarter was \$6.2 million, or \$0.33 per share, reflecting the impact of the items listed above, compared with net loss of \$5.5 million, or \$0.29 per share, a year ago.

Adjusted net income for the fiscal 2020 first quarter was \$1.7 million, or \$0.09 per diluted share, compared with \$3.0 million, or \$0.16 per diluted share, a year earlier.

Gross profit for the fiscal 2020 first quarter was \$17.6 million compared with \$16.4 million a year earlier. Gross profit as a percentage of net sales for the fiscal 2020 first quarter was 16.1 percent compared with 17.8 percent a year earlier.

Adjusted gross profit for the fiscal 2020 first quarter was \$26.2 million compared with \$22.9 million a year ago. Adjusted gross profit as a percentage of adjusted net sales for the three months was 24.1 percent compared with 24.4 percent a year earlier.

Use of Non-GAAP Measures

This press release includes the following non-GAAP measures - adjusted net sales, adjusted net income (loss), adjusted EBITDA, adjusted gross profit and adjusted gross margin, which are not measures of financial performance under GAAP, and should not be considered as alternatives to net sales, net income (loss), EBITDA, income from operations, gross profit or gross profit margin as a measure of financial performance. The Company believes these non-GAAP measures, when considered together with the corresponding GAAP measures, provide useful information to investors and management regarding financial and business trends relating to the company's results of operations. However, these non-GAAP measures have significant limitations in that they do not reflect all of the costs associated with the operations of the company's business as determined in accordance with GAAP. Therefore, investors should consider non-GAAP measures in addition to, and not as a substitute for, or superior to, measures of financial performance in accordance with GAAP. For a reconciliation of adjusted net sales, adjusted net income (loss), adjusted EBITDA, adjusted gross profit and adjusted gross margin to their corresponding GAAP measures, see the financial tables included in this press release. Also, refer to our Form 8-K to which this release is attached, and other filings we make with the SEC, for further information regarding these adjustments.

Teleconference and Web Cast

Selwyn Joffe, chairman, president and chief executive officer, and David Lee, chief financial officer, will host an investor conference call today at 10:00 a.m. Pacific time to discuss the company's financial results and operations.

The call will be open to all interested investors either through a live audio Web broadcast at www.motorcarparts.com or live by calling (877)-776-4016 (domestic) or (973)-638-3231 (international). For those who are not available to listen to the live broadcast, the call will be archived for seven days on Motorcar Parts of America's website www.motorcarparts.com. A telephone playback of the conference call will also be available from approximately 1:00 p.m. Pacific time on August 8, 2019 through 8:59 p.m. Pacific time on August 15, 2019 by calling (855)-859-2056 (domestic) or (404)-537-3406 (international) and using access code: 3797116.

About Motorcar Parts of America, Inc.

Motorcar Parts of America, Inc. is a remanufacturer, manufacturer and distributor of automotive aftermarket parts -- including alternators, starters, wheel bearing and hub assemblies, brake calipers, brake master cylinders, brake power boosters, rotors, brake pads and turbochargers utilized in imported and domestic passenger vehicles, light trucks and heavy-duty applications. In addition, the company designs and manufactures test solutions for performance, endurance and production testing of electric motors, inverters, alternators, starters, and belt starter generators for the OE, aerospace and aftermarket. Motorcar Parts of America's products are sold to automotive retail outlets and the professional repair market throughout the United States and Canada, with facilities located in New York, California, Mexico, Malaysia, China and India, and administrative offices located in California, Tennessee, Mexico, Singapore, Malaysia and Canada. Additional information is available at www.motorcarparts.com.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. The statements contained in this press release that are not historical facts are forward-looking statements based on the company's current expectations and beliefs concerning future developments and their potential effects on the company. These forward-looking statements involve significant risks and uncertainties (some of which are beyond the control of the company) and are subject to change based upon various factors. Reference is also made to the Risk Factors set forth in the company's Form 10-K Annual Report filed with the Securities and Exchange Commission (SEC) in June 2019 and in its Forms 10-Q filed with the SEC for additional risks and uncertainties facing the company. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as the result of new information, future events or otherwise.

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended	
	June 30,	
	2019	2018
		(As Adjusted)
Net sales	\$ 109,148,000	\$ 91,668,000
Cost of goods sold	91,565,000	75,316,000
Gross profit	17,583,000	16,352,000
Operating expenses:		
General and administrative	12,000,000	12,091,000
Sales and marketing	4,919,000	4,392,000
Research and development	2,372,000	1,736,000
Total operating expenses	19,291,000	18,219,000
Operating loss	(1,708,000)	(1,867,000)
Interest expense, net	6,173,000	5,075,000
Loss before income tax benefit	(7,881,000)	(6,942,000)
Income tax benefit	(1,730,000)	(1,447,000)
Net loss	\$ (6,151,000)	\$ (5,495,000)
Basic net loss per share	\$ (0.33)	\$ (0.29)
Diluted net loss per share	\$ (0.33)	\$ (0.29)
Weighted average number of shares outstanding:		
Basic	18,822,178	18,895,847
Diluted	18,822,178	18,895,847

Note: The Company had revised its financial statements for each of the three years in the period ended March 31, 2018 and for the three months ended June 30, 2018. As of June 30, 2018, the cumulative error for all periods previously reported was an understatement of net income of \$2,938,000. For further information, please see the Company's September 30, 2018 Form 10-Q.

MOTORCAR PARTS OF AMERICA, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	June 30, 2019	March 31, 2019
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,207,000	\$ 9,911,000
Short-term investments	2,074,000	3,273,000
Accounts receivable — net	45,042,000	56,015,000
Inventory— net	262,116,000	233,726,000
Inventory unreturned	8,349,000	8,469,000
Contract assets	20,913,000	22,183,000
Income tax receivable	12,334,000	10,009,000
Prepaid expenses and other current assets	9,030,000	9,296,000

Total current assets	371,065,000	352,882,000
Plant and equipment — net	38,398,000	35,151,000
Operating lease assets	50,103,000	-
Long-term deferred income taxes	9,592,000	9,746,000
Long-term contract assets	212,638,000	221,876,000
Goodwill	3,205,000	3,205,000
Intangible assets — net	7,965,000	8,431,000
Other assets	866,000	1,071,000
TOTAL ASSETS	\$ 693,832,000	\$ 632,362,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 87,973,000	\$ 92,461,000
Accrued liabilities	14,762,000	14,604,000
Customer finished goods returns accrual	21,488,000	22,615,000
Contract liabilities	30,642,000	30,599,000
Revolving loan	135,400,000	110,400,000
Other current liabilities	4,077,000	4,990,000
Operating lease liabilities	3,976,000	-
Current portion of term loan	3,678,000	3,685,000
Total current liabilities	301,996,000	279,354,000
Term loan, less current portion	23,218,000	24,187,000
Long-term contract liabilities	39,159,000	40,889,000
Long-term deferred income taxes	275,000	257,000
Long-term operating lease liabilities	48,155,000	-
Other liabilities	6,200,000	7,920,000
Total liabilities	419,003,000	352,607,000
Commitments and contingencies		
Shareholders' equity:		
Preferred stock; par value \$.01 per share, 5,000,000 shares authorized; none issued	-	-
Series A junior participating preferred stock; par value \$.01 per share, 20,000 shares authorized; none issued	-	-
Common stock; par value \$.01 per share, 50,000,000 shares authorized; 18,854,272 and 18,817,400 shares issued and outstanding at June 30, 2019 and March 31, 2019, respectively	189,000	188,000
Additional paid-in capital	215,672,000	215,047,000
Retained earnings	65,256,000	71,407,000
Accumulated other comprehensive loss	(6,288,000)	(6,887,000)
Total shareholders' equity	274,829,000	279,755,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 693,832,000	\$ 632,362,000

Reconciliation of Non-GAAP Financial Measures

To supplement the consolidated financial statements presented in accordance with U.S. generally accepted accounting principles ("GAAP"), the Company has included the following non-GAAP adjusted financial measures in this press release and in the webcast to discuss the Company's financial results for the three months ended June 30, 2019 and 2018. Each of these non-GAAP adjusted financial measures is adjusted from results based on GAAP to exclude certain expenses and gains. Among other things, the Company uses such non-GAAP adjusted financial measures in addition to and in conjunction with corresponding GAAP measures to help analyze the performance of its business.

These non-GAAP adjusted financial measures reflect an additional way of viewing aspects of the Company's operations that, when viewed with the GAAP results and the reconciliations to corresponding GAAP financial measures, provide a more complete understanding of the Company's results of operations and the factors and trends affecting the Company's business. However, these non-GAAP adjusted financial measures should be considered as a supplement to, and not as a substitute for, or superior to, the corresponding measures calculated in accordance with GAAP.

Income statement information for the three months ended June 30, 2019 and 2018 are as follows:

Reconciliation of Non-GAAP Financial Measures

Exhibit 1

Three Months Ended June 30,

	2019	2018
		(As Adjusted)
GAAP Results:		
Net sales	\$ 109,148,000	\$ 91,668,000
Net loss	(6,151,000)	(5,495,000)

Loss per share (EPS)	(0.33)	(0.29)
Gross margin	16.1	%	17.8	%
Non-GAAP Adjusted Results:				
Non-GAAP adjusted net sales	\$ 108,561,000		\$ 93,810,000	
Non-GAAP adjusted net income	1,675,000		3,016,000	
Non-GAAP adjusted diluted earnings per share (EPS)	0.09		0.16	
Non-GAAP adjusted gross margin	24.1	%	24.4	%
Non-GAAP adjusted EBITDA	\$ 10,722,000		\$ 10,237,000	

Note: The Company had revised its financial statements for each of the three years in the period ended March 31, 2018 and for the three months ended June 30, 2018. As of June 30, 2018, the cumulative error for all periods previously reported was an understatement of net income of \$2,938,000. For further information, please see the Company's September 30, 2018 Form 10-Q. As of June 30, 2018, the cumulative impact to non-GAAP adjusted net income for all periods previously reported was an understatement of \$1,220,000.

Reconciliation of Non-GAAP Financial Measures

Exhibit 2

Three Months Ended June 30,

	2019		2018	
			(As Adjusted)	
GAAP net sales	\$ 109,148,000		\$ 91,668,000	
Adjustments:				
Net sales				
Return and stock adjustment accruals related to new business	159,000		-	
Customer allowances related to new business	1,108,000		2,142,000	
Impact of sales price increases related to tariffs	(2,280,000)	-	
Cost in connection with a cancelled contract	426,000		-	
Adjusted net sales	\$ 108,561,000		\$ 93,810,000	

Reconciliation of Non-GAAP Financial Measures

Exhibit 3

Three Months Ended June 30,

	2019		2018	
	\$	Per Diluted Share	(As Adjusted) \$	Per Diluted Share
GAAP net (loss) income	\$ (6,151,000) \$ (0.33) \$ (5,495,000) \$ (0.29
Adjustments:				
Net sales				
Return and stock adjustment accruals related to new business	159,000	\$ 0.01	-	\$ -
Customer allowances related to new business	1,108,000	\$ 0.06	2,142,000	\$ 0.11
Impact of sales price increases related to tariffs	(2,280,000) \$ (0.12) -	\$ -
Cost in connection with a cancelled contract	426,000	\$ 0.02	-	\$ -
Cost of goods sold				
New product line start-up and ramp-up costs, and transition expenses	1,354,000	\$ 0.07	1,755,000	\$ 0.09
Revaluation - cores on customers' shelves	4,564,000	\$ 0.24	2,626,000	\$ 0.14
Cost of stock adjustment accruals related to new business	(59,000) \$ (0.00) -	\$ -
Tariff costs paid for products sold before price increases were effective	3,347,000	\$ 0.18	-	\$ -
Cost of goods sold for cores recorded in connection with a cancelled contract				
Operating expenses				
Acquisition, financing, transition, severance, earn-out accruals from acquisitions and other costs	1,045,000	\$ 0.06	531,000	\$ 0.03
Share-based compensation expenses	988,000	\$ 0.05	941,000	\$ 0.05

Mark-to-market losses (gains)	(537,000)	\$ (0.03)	2,666,000	\$ 0.14
Interest				
Write-off of debt issuance costs	-	\$ -	303,000	\$ 0.02
Tax effected (a)	(2,289,000)	\$ (0.12)	(2,453,000)	\$ (0.13)
Adjusted net income	\$ 1,675,000	\$ 0.09	\$ 3,016,000	\$ 0.16

(a) Adjusted net income is calculated by applying an income tax rate of 25.0% to adjusted pre-tax income for the three months ended June 30, 2019 and 2018;

this rate may differ from the period's actual income tax rate

Reconciliation of Non-GAAP Financial Measures

Exhibit 4

Three Months Ended June 30,

	2019		2018			
	\$	Gross Margin	As Adjusted	\$	Gross Margin	
GAAP gross profit	\$ 17,583,000	16.1	% \$ 16,352,000	17.8	%	
Adjustments:						
Net sales						
Return and stock adjustment accruals related to new business	159,000		-			
Customer allowances related to new business	1,108,000		2,142,000			
Impact of sales price increases related to tariffs	(2,280,000)		-			
Cost in connection with a cancelled contract	426,000		-			
Cost of goods sold						
New product line start-up and ramp-up costs, and transition expenses	1,354,000		1,755,000			
Revaluation - cores on customers' shelves	4,564,000		2,626,000			
Cost of stock adjustment accruals related to new business	(59,000)		-			
Tariff costs paid for products sold before price increases were effective	3,347,000		-			
Cost of goods sold for cores recorded in connection with a cancelled contract	-		-			
Total adjustments	8,619,000	8.0	% 6,523,000	6.6	%	
Adjusted gross profit	\$ 26,202,000	24.1	% \$ 22,875,000	24.4	%	

Reconciliation of Non-GAAP Financial Measures

Exhibit 5

Three Months Ended June 30,

	2019		2018			
	\$		As Adjusted	\$		
GAAP net (loss) income	\$ (6,151,000)	\$ (5,495,000)		
Interest expense, net	6,173,000		5,075,000			
Income tax (benefit) expense	(1,730,000)	(1,447,000)		
Depreciation and amortization	2,379,000		1,586,000			
EBITDA	\$ 671,000		\$ (281,000)		
Adjustments:						
Net sales						
Return and stock adjustment accruals related to new business	159,000		-			
Customer allowances related to new business	1,108,000		2,142,000			
Impact of sales price increases related to tariffs	(2,280,000)	-			
Cost in connection with a cancelled contract	426,000		-			

Cost of goods sold		
New product line start-up and ramp-up costs, and transition expenses (a)	1,322,000	1,694,000
Revaluation - cores on customers' shelves	4,564,000	2,626,000
Cost of stock adjustment accruals related to new business	(59,000) -
Tariff costs paid for products sold before price increases were effective	3,347,000	-
Cost of goods sold for cores recorded in connection with a cancelled contract	-	-
Operating expenses		
Acquisition, financing, transition (a), severance, earn-out accruals from acquisitions and other costs	1,013,000	449,000
		-
		-
		-
Share-based compensation expenses	988,000	941,000
Mark-to-market losses (gains)	(537,000) 2,666,000
Adjusted EBITDA	\$ 10,722,000	\$ 10,237,000

(a) Excludes depreciation

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Source: Motorcar Parts of America, Inc.