



Regional Brands

Dear Regional Brands Inc. Stockholders:

It has been a year since our last formal letter to shareholders. As a result, we felt it would be a good time to give you an update on the progress of our underlying operating business, BR Johnson (“BRJ”). BRJ struggled a bit in 2019, reporting \$41.0 million of revenues and \$2.1 million of subsidiary-level EBITDA (versus \$3.4 million in 2018) for the year-ended December 31, 2019. Regional Brands continued to generate cash flow from the investment and had \$8.4 million (close to \$7 per share) in cash and short-term investments on the balance sheet at the end of 2019. The investment has, in our view, generated value for shareholders. In the approximately 3 years we have owned the business tangible book value has grown from \$5.77 per share to \$10.13 per share, close to 20% per year.

After a great deal of negotiation and discussion, we determined the time was right for us to buy out Lorraine Capital, our private equity partner in BR Johnson. Our conclusion after 3 years of being partnered was our vision for the future of BRJ was not aligned with that of Lorraine. As a result, in February 2020 we announced that we acquired Lorraine’s interest in BR Johnson for \$1.6 million and terminated their management services agreement.

Our mission currently is to return BRJ to what it was 3 years ago – a high quality, customer oriented, highly profitable business with real expertise in its core divisions. In the recent past the business has focused predominantly on top line growth at the expense of profitability:

	Year ended December 31,		
	2019	2018	2017
	(Unaudited)		
<i>Regional Brands Inc. Consolidated Data:</i>			
Income statement:	<i>\$'s in 000's</i>		
Net sales	\$ 40,953	\$ 39,988	\$ 36,927
Gross profit	\$ 10,801	\$ 11,207	\$ 11,587
Gross profit as percent of net sales	26.4%	28.0%	31.4%
EBITDA	\$ 1,885	\$ 3,076	\$ 3,293
EBITDA as a percent of net sales	4.6%	7.7%	8.9%
Operating income	\$ 94	\$ 1,496	\$ 1,324
Net income	\$ 24	\$ 1,080	\$ 861
Regional Brands Balance sheet (end of period):			
Cash and short-term investments (A)	\$ 8,387	\$ 7,402	\$ 6,321
Stockholders'equity	\$ 18,152	\$ 18,072	\$ 17,082
Less intangible assets	\$ (2,200)	\$ (3,400)	\$ (4,600)
Less goodwill	\$ (3,045)	\$ (3,045)	\$ (3,013)
Tangible book value (A)	\$ 12,907	\$ 11,627	\$ 9,469
Common stock outstanding	1,274,603	1,274,603	1,274,603
Tangible book value per share	\$ 10.13	\$ 9.12	\$ 7.43
(A) In February 2020, cash and short-term investments in the amount of \$1.6 million was used to acquire Lorraine's interest in BRJ.			



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While revenue has been increasing the past several years, profitability has not met our expectations, and declined in 2019. This has come primarily from declining gross profit margin percentages and additional SG&A costs. The gross profit margin percentage declines are attributable to a lack of discipline on pricing our contracts, products and services and (in our view) increasing the top line for growth's sake rather than to drive increased margins and value. We are working to reverse the decline in profitability by returning to price and margin discipline and a leaner organization.

After our buyout of Lorraine, it was imperative that we partner with individuals we believed could return BRJ to its past glory. We are very pleased to have partnered with a pair of the former owners of BRJ to make this transition. Bill Harfosh and Mike Howard have been installed as the new Executive Chairman and CEO of BRJ, respectively. They bring decades of experience with BRJ and were two of the key people who built BRJ into the profitable, well respected business it was prior to our acquisition. We have been absolutely thrilled with the competence and pragmatism of Bill and Mike and feel the measures they have been taking will turn the situation around quickly.

In addition to adding Bill and promoting Mike, we have been excited to meet and begin to get to know other key members of the BRJ management team. The divisional management (Ron Fiorentino, Ralph Corliss III, Jerry Anderson, Adam Dean and Jason Dutton) along with our newly promoted CFO, Meghan Larson, bring a wealth of industry knowledge and a strong work ethic that we believe will carry BRJ into the next generation. We are not on-site at BRJ on a daily or even weekly basis; as a result, we feel it is important that we appropriately reward these and other leaders at BRJ to create what we believe has been beginning to form – a strong, long-term partnership. We have overhauled the Company's year-end bonus program to be generous and to focus on EBITDA, free cash flow and value creation. We are also looking to provide equity to members of management. We want to be aligned with management teams that we view as winners. And our initial impression is this group certainly has that look and feel to them.

We expect 2020 to be a year of transition at the company. Similar to many companies, BRJ's business has been substantially impacted by Covid-19. The New York state government shut down most construction projects at the end of March and as a result, the Company's current business has been impacted substantially. However, we are hopeful the Company will be on solid footing once the restrictions are lifted.

Finally, we have been contemplating a significant action at the holding company level. Given the need to reduce costs we are reviewing the steps necessary to "go dark" so that we can cease making SEC filings. This would allow us to avoid the expense of being an SEC filer. Given our size and profile, we do not feel we are getting the benefit of being a public company, but we are bearing the costs. As a result, we may have further communication on this front soon. If completed, we expect this would save us approximately \$200-\$300K in expenses per year. If we do stop filing with the SEC, we would plan to continue to provide financial information to shareholders on either a quarterly or semi-annual basis.

If you have any questions don't hesitate to call Fred DiSanto or Brian Hopkins at 216-825-4000.

Best,

Carl Grassi Chairman

Fred DiSanto CEO



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Note regarding forward-looking statements:

This letter contains statements about future events and expectations that are characterized as “forward-looking statements.” Forward-looking statements are based upon management’s beliefs, assumptions, and expectations. Forward-looking statements involve risks and uncertainties, including those described in Regional Brands’ Form 10-K and other filings with the SEC, that may cause Regional Brands’ actual results, performance, and financial condition to be materially different from the expectations of future results, performance, and financial condition expressed or implied in such forward-looking statements. You are cautioned to not put undue reliance on forward-looking statements. We disclaim any intent or obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.