# *Transcript of XFit Brands*
## Fiscal 2016 First Quarter Earnings Call
## November 19, 2015

## Participants

Cameron Donahue – Partner and Regional Vice President, Hayden IR
Dave Vautrin – Chief Executive Officer
Brent Willis – Executive Chairman
Bob Miranda – Chief Financial Officer

## Analysts

Neil Cataldi – Blueprint Capital Management
Joshua Harwood

## Presentation

**Operator**
Greetings, and welcome to the XFit Brands Fiscal 2016 First Quarter Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. (Operator instructions.)

I would now like to turn the conference over to your host, Cameron Donahue of Hayden IR. Please go ahead.

**Cameron Donahue – Partner and Regional Vice President, Hayden IR**
Good afternoon. Thank you for joining XFit Brand Inc.'s Fiscal First Quarter 2016 Investor Conference Call for the period ended September 30, 2015. On today's call, we have Brent Willis, Executive Chairman; Dave Vautrin, Chief Executive Officer; and Bob Miranda, Chief Financial Officer.

On our call Dave will provide some opening comments in review of first fiscal quarter performance. Bob will provide a deep dive into our fiscal Q1 financial results, and Brent will discuss our strategic priorities, the major factors impacting our business, and our outlook for 2016. We will then open the call to questions.

I remind you, this conference call contains certain forward-looking statements reflecting management's current expectations regarding our future results of operations, economic performance, financial condition, and the achievements of the company. Forward-looking statements, specifically those concerning future performance, are subject to certain risk and uncertainties. And financial reconciliation, accompanying this morning's press release, is available in the Investor Relations financial reports section of our website, xfitbrands.com.

I'd like to now turn the call over to Dave.

**Dave Vautrin – Chief Executive Officer**
Good afternoon, and thank you for joining XFit Brand Inc.'s first quarter and first ever investor conference call. I'm pleased to report that the momentum at XFit Brands is continuing. We grew top-line revenue in the quarter by over 60%, and this was on top of nearly 45% annual revenue growth recently delivered for our full year fiscal 2015. We are encouraged with this accelerating rate of strong, double-digit growth in the first quarter and believe we can continue this momentum into the future.

Why? Why are we moving so fast? Well, first, I believe we're in the right growth industry. It's so much easier to grow a business when you're swimming with the tide. We definitely have the industry wind in our sales with the growth of fitness, the growth of MMA, UFC, the growth of CrossFit, and the trends towards a healthier lifestyle and prevention around the world.

That's just one small part of the story; however, because in addition to having industry tailwind, we are also executing our business line and it's working. We have a very detailed plan by major customer by segment of the business with very specific accountabilities for each of our key leaders, and as such are allocating both our financial and human resources against the biggest priorities that make the biggest difference. One of our major strategies was to focus on large national and global gym and fitness franchises and provide them one-stop-shop for them.

We believe we are one of the only few competitors in the industry that can be a one-stop-shop and provide their entire portfolio, and the level of customer service and the value that they are looking for. We started to employ this strategy at the beginning of the fiscal year and it is paying dividends. We won an exclusive agreement with Crunch Fitness franchise that has over 100 gyms throughout the United States and this group is rapidly growing with plans for over 450 additional outlets in the immediate future.

We're rolling out a new portfolio of functional fitness equipment and accessories at many of these facilities, and we expect to further rollout throughout 2016. On average, each gym spends about $22,000 and we're adding additional accessories and training offerings to provide further upside going forward. We are also in test with three of the other five largest gym and fitness operators, where we intend to become their exclusive supplier for MMA, functional fitness items, and accessories as well.

Also driving the business is our continued international growth. Last year, international comprised around 47% of our total business. The division, under Ted Joiner's leadership, has done a good job building this segment historically and for the first quarter we saw continued growth in the group.

While we read about the negative currency and impact of many companies that have a global business, we are not a group that accepts excuses. As such, despite having some of those impacts we more than offset them expanding with our existing partners and major geography of Australia, Japan, Southeast Asia and the Middle East, and expanding with new partners and new geography, most notably, New Zealand, Scandinavia, and the UK.

Last year Brazil made up a large part of our international business. That country continues to struggle economically, but our company has a broad presence there with some of the leading retail chains and a very respected brand with consumers in the country. In fact, we have over 56,000 followers on the Throwdown Brazil Facebook. We are confident that our retail distribution presence coupled with our brand loyalty will sustain our business over the long-term.

In addition to the tremendous revenue growth that we've been experiencing, we also significantly improved our gross margins growing to 45.3% in the quarter, up 149% versus the prior year. This was a result of a concerted effort by our Vice President of Supply Chain, Frank Miller, and he has done an outstanding job. He has built a network of some of the leading manufacturers in the industry that meet our stringent quality control standards.

Sometimes when working with suppliers in Pakistan, China, and other developing countries, quality control can be a challenge, but we have key leaders stationed with some of our most important manufacturers to ensure superior quality. We now have a network of seven operations across the world driving to make XFit Brands and Throwdown the low-cost, high-quality products in the industry. So, I'm pleased with the operating performance of the firm and mind you it was achieved while being short on inventory, limited working capital to invest in and drive the business.

Look, it's a great time to be in this industry and a great time to be positioned as well as we are to take advantage of the industry transformation. We really have a tiger by the tail. My challenge is to keep driving profitable growth, significantly increase the sales of the business, and to, frankly, just keep executing the business plan. We don't need to change anything we just need to execute, execute, execute.

With that as an overview, let me now pass on to Bob, our CFO, to provide more detailed revenue review of the numbers.

**Bob Miranda – Chief Financial Officer**
Thank you, Dave. As Dave explained, XFit is a rapidly growing organization with an experienced and disciplined management team. Not only did we deliver strong financial performance in the quarter, but we also completed our public listing process and became actively trading which will provide a vehicle to support the access of capital to continue to deliver growth.

Let's look at the numbers. Revenue was up 60.9%, which was the first fiscal quarter in 2015, so we are seeing excellent and consistent growth. Driving the revenue was sales to major US customers, especially Crunch Gyms where we recently signed an exclusive supply agreement. In addition, XFit Brand expanded its portfolio in the quarter to move beyond its traditional MMA equipment where its heritage lays to add a portfolio of equipment and accessories in the fast growing, functional fitness segment including dumbbells, barbells, kettlebells, resistance bands, and other accessories.

These products enabled the company to provide the one-stop-shop for major fitness franchises which Dave discussed. XFit is in a number of tests or significant discussions with other major global fitness operators under similar arrangements. In addition to the US business segment growth, the international division performed extremely well. Like any global company in consumer goods, we felt the effects of currency translation and the slowdown of Latin America, but we were more than able to offset those negative impacts with outstanding growth with excellent partners in other international geographies.

To further accelerate growth, we are working to secure additional funding. As a scale comes and the team has the capabilities and support systems to deliver it, the business will rapidly turn to profitability at the bottom line. It does need, in the short-term, the working capital for inventory which is why XFit is engaged in a small $2 million raise with OfferBoard Securities that just kicked off within the past few weeks.

Given our gross margins now exceeds 45%, we need to add around $2 million in revenue to the top-line to absorb the cost of the infrastructure we established to enable us to scale the business. Gross profit was up an impressive 149% versus prior year, exceeding the pace of revenue growth as a company sourcing strategy began to gain traction. The mix within the portfolio continues to transition to higher margins, recurring products versus the fixed major equipment pieces that comprise a big part of XFit Brands portfolio historically.

Gross margin as a percent of sales increased to 45.3%, up 16 basis points from 29% in the prior year. This growth is attributed to the improvement in cost of goods, improved material sourcing, and the evolution of the portfolio to the higher margin goods as previously mentioned. In the quarter the firm moved to a new headquarters and lower-cost distribution center in Lake Forest, California. That facility, which is more than 25,000 square feet and also serves as a showroom for XFit's portfolio, enabled the company to consolidate a number of smaller DCs, further improve margins and efficiencies, and house the additional inventory needed to expand to its new customers and channels.

Net loss for the quarter was $439,689 or $0.11 per basic and diluted share, versus a net loss of $349,884 or $0.09 per basic and diluted share for the three months ended September 30, 2014. The firm has been invested in growth and expansion in inventory to meet the needs of an expanding customer base. In addition, the firm invested significant resources in becoming public and beginning trading under the ticker symbol XFTB on the OTCQB Exchange.

In addition to the financial operating performance, the company made a major move to secure additional growth capital. One of the firm's key financing partners, PIMCO, invested $500,000 in recent months enabling the company to purchase inventory for existing customer orders and providing needed working capital to continue the pace of growth in XFIT. As part of the investment, PIMCO also became a shareholder, earning 10,000 shares, which are valued at $5 per share as part of the financing transaction.

In summary before I pass this over to Brent to talk about where the firm is headed strategically, another great quarter of growth for the firm which is an acceleration of the near 45% annual revenue growth that XFit Brands has been achieving historically. The PIMCO funding was a great endorser for the business from one of the most respected and legitimate financial groups in the world. Despite undercapitalization the company has a tremendous infrastructure, is growing well, building at scale, which as it does so, will rapidly shift the bottom-line profitability and positive earnings per share.

Now, let me pass it over to Brent.

**Brent Willis – Executive Chairman**
Thank you, Bob. Great job. Dave, well, congratulations on another outstanding quarter of performance. The thing the guys asked me to do on the call today is talk a little bit about where the firm is headed strategically. This is the area where I get most involved in the firm, at the business plan and strategic plan levels and is, frankly, the difference in my view between executive chairmen deeply involved in those aspects of the firm and the execution of the plans versus a chairman of the board which is more focused primarily on governance.

Where are we headed and what is our outlook? First off, this is a high-growth industry. We define our total playing field as a $225 billion space that is growing at a compounding annual growth rate of more than 5%. Driving the growth is an increase to awareness of health and a shift towards prevention and healthier lifestyles. These are not really short-term trends, and we expect the growth of the industry to continue unabated.

Functional fitness, with the advent of CrossFit and other work out regimens and mixed martial arts and UFC, are key contributors to the growth as these components gain awareness amongst mainstream consumers. Now competitively, most of the players in the industry are smaller and more entrepreneurial in nature. Very few, if any, can provide a one-stop-shop, quality, value, and customer service either to retailers or major gym operators. We see this as, frankly, a tremendous source of competitive advantage for XFit Brands and these capabilities are right in our company's sweet spot.

Our outlook is particularly positive for the industry and our competitive position in it, frankly, our only enemy is ourselves and our own ability to focus and execute. What are we focusing on and executing? Put another way, what is the company's growth model and how can our shareholders and investor partners hold us accountable as a leadership team on the drivers and, frankly, the precursors of performance?

We're only going to do four things extremely well and better than anyone else in the industry and we will update against those four pillars every single quarter. By seeing the metrics and the strategic progress, it will operate as somewhat of an early visibility system of what the end financial performance will look like in the upcoming quarters. Our first driver is, as both Dave and Bob have talked about, is to be that one-stop-shop for major gym and fitness operators with a full portfolio of equipment and the main items and recurring functional fitness products.

We have invested in the supply chain, the manufacturing network, the quality, the distribution, the customer service systems to enable us to assume this leadership role. Now, it just comes down to execution. As mentioned, we formed our first exclusive partnership in this area with Crunch Gyms and we've always been a key supplier for UFC Gyms. We are in substantive discussions with a number of other operators and will report progress in this first strategic area each quarter. Without providing details or an outlook in this area, we do see a very robust pipeline of orders in the coming quarter that we are looking to fulfill and purchase the inventory now as we speak.

The second part of our growth model is to continue to drive international. In international we're doing three things. Number one, we are expanding depth with existing partners in existing countries. Number two, we are expanding breadth with existing partners in new countries and new geographies. Number three, we're bringing on new partners in new high-growth geographies.

All three activities are working quite well, and we think it's an outstanding sign that our current partners are both adding our new functional fitness lines to their portfolios and commercializing those in existing geographies, and actively seeking to work with us in new geographies. We're only in 20 countries, so we feel we have at least another 150 countries to go before we have to start to look for any new sources of growth.

Our third pillar, we want to expand to traditional sporting goods and mass retail in the United States. We already have depth of experience internationally and have a strong brand in a number of markets with major retail. We have historically not had the cash flow or ability to invest US retail. In truth, we still don't have the level of financial resources required for concerted penetration of this channel. What we do have, is the retail-ready portfolio, we do have the infrastructure, we do have the systems, and we do have the brands that have real resonance in the grassroots communities on which we can build to expand to this very significant channel.

The last component of our growth model, number four, is industry and brand consolidation to complement our organic growth activities. We see a number of potentially immediately accretive opportunities on the horizon, and we are actively and currently engaged in discussions with some of those opportunities right now. We are confident that we can bolt on these business's brands and capabilities to our existing platform and infrastructure, and when we do so the result and combinations after revenue synergies, after cost synergies, will position our company with the scale, the growth trajectory, and the financial and human resources to become the leading marketer and developer of functional fitness and impact sporting goods sold at both retail and functional fitness outlets worldwide.

That is the XFit Brands simple and focused growth model. We will update the metrics and strategic progress against it each quarter to provide the real behind the scenes visibility on the precursors of results that will lead ultimately to the financial performance of the firm. Our view is this company has the brands, it has the infrastructure, it has the leadership team, and it has the plans and focus to capitalize on a very unique and high-growth opportunity.

We have a lot of measured confidence in our abilities to build shareholder value here, buttressed by our track record of performance over the past years, and in this quarter in particular where Dave and team delivered growth of greater than 60% while having the distraction of taking the company public. Any way you look at it, it is commendable performance that just doesn't normally happen consistently in virtually any consumer goods business that I've seen. It's really encouraging to be both invested in it and a part of building what we see as a competitively advantaged machine in this very attractive industry.

With that, let me please pass it over to Dave to wrap.

**Dave Vautrin – Chief Executive Officer**
Well thank you, Brent, thank you, Mr. Chairman. Brent and I have worked together for almost ten years now in different companies, so we have a long history of driving success together. Like Brent and Bob, I, too, have a lot of confidence in what I see for the firm going forward. Now that we are a public entity and we can access a public market to further our growth, we are focused on maintaining our growth momentum, achieving profitability, and creating sustainable value for our shareholders.

Thank you very much. I'd like to now pass it the moderator, who will open up the lines for any questions you may have.

**Operator**
Thank you. At this time, we'll be conducting a question and answer session. (Operator instructions.) One moment please while we poll for questions.

Our first question comes from Neil Cataldi from Blueprint Capital Management.

<Q>: A few questions if I may. The press release reference is a supply agreement with a major national fitness chain. Did that impact the quarterly results in this quarter that just was completed?

**Brent Willis – Executive Chairman**
Dave, this is Brent here. Dave, do you want to take that one and talk about the overall aspects of the Crunch relationship?

**Dave Vautrin – Chief Executive Officer**
Yes, this is Dave. That relationship is with Crunch Fitness. We executed an exclusive supply chain agreement with them. The agreement was executed, really, just about 145 days or so ago, and we are just starting to see the impact of that business today. It did impact the results of the quarter, and we have a really robust pipeline of revenue coming in through purchase orders and projections.

I spoke actually with one of the leadership earlier today, and they anticipate to have well over 450 locations so there will be an enormous amount of pending revenue. We're on the early stage of that ramp-up, but we have designed an exclusive piece of equipment for them, we made specific branded products for them, and it's a fantastic relationship. I think our momentum just recently kicked off by attending their annual franchise convention and that was a great success. I hope that answered your question.

<Q>: Yes, no very helpful. I think you said earlier in the prepared remarks a number around the average sale per gym. Was it $20,000 or do I have that right?

**Dave Vautrin – Chief Executive Officer**
On the low end it's about $22,000 and that includes the piece of equipment, some fitness training accessories. In addition to that several of the locations will often take more than one piece, they'll take two pieces in the event that they take the CTC as we call it, and then a UTC-K2 which is our two-story fitness system. Then you're looking at revenue on a per location in excess of $50,000, so they start off on a baseline about $22,000.

What 's different about this relationship, different than in the past, we historically would just sell equipment and we didn't have the recurring revenue. What we have now is on equipment sale we have accessories that go on it, and then we have additional recurring revenue beyond that.

<Q>: The recurring is maintenance, I imagine, if they have a problem with the machine, or?

**Dave Vautrin – Chief Executive Officer**
No, it would be two-fold. One is, whether it's additional slam ball, kettlebells, or if they need additional accessories, which is a real big part of our launch going forward which we can supply, not only for around our piece of equipment, but also for other parts of the gym, number one. Number two, we're actually just began selling programming. In addition to just buying our equipment and our accessories, we'll provide a basic programing and then we also have an upgraded programing where as they purchase programming for a certain price. In fact, some of the recent programming revenue was with Crunch Fitness.

The opportunities with that particular account continue to expand and frankly we are pursuing, as Brent indicated, several of these accounts that we've recently launched and shipped into some major players here. We're just going to continue to execute that strategy on the health club side.

<Q>: Okay, so it's fair to extrapolate $420,000, it's like an $8 million opportunity?

**Brent Willis – Executive Chairman**
Just with that one account, Neil.

<Q>: Okay, and then these three other ones that you're talking about being in negotiations with, can you give any color on how many locations they have?

**Dave Vautrin – Chief Executive Officer**
Well, actually I'll just bring you up to speed on the accounts. Recently we have started new relationships and have shipped to Gold's Gym, Equinox, YMCA, and we're actually doing a test with 24 Hour Fitness. We're working with a lot of the major players in the industry. In scope, Crunch is tiny compared to them in aggregate.

<Q>: Right. Okay, and I guess my last question is just on a—from a sales perspective. Are you using distributors or is this direct sales, and if it's direct sales do you need to bring on more personnel as you guys start to really grow?

**Dave Vautrin – Chief Executive Officer**
I'll answer in two parts, from an international standpoint, that particular business is serviced two-fold either through licensing or through distribution. We have, for example, in Australia we have an exclusive distributor down there who then sells to some of the top fitness chains in that particular marketplace. On the US side, it's really a direct sales. On that front we really have just two people on it and led mostly by the President of the firm, as well as another key leader on the sales side.

We see enormous upside opportunity once we start shifting from being a reactive and taking referrals all day long, to more of a proactive approach. The answer is yes, we're going to need to add that on. We first needed to establish the infrastructure and we feel really confident about where we are today and our ability to scale up accordingly.

<Q>: Okay, great. Thanks, guys, appreciate the answers.

**Operator**
Thank you. (Operator instructions.) Our next question comes from Joshua Harwood.

<Q>: I have a question about the total addressable market and how you define that. Could you break that out for us so it's between new clubs versus replacement cycle sales, and how your current mix reconciles to that split and what you see going forward?

**Brent Willis – Executive Chairman**
It's Brent here. It would be hard to break out on current versus new clubs, but we'll give you two pieces. Of the $225 billion addressable market, the health club side is $78 billion of that. That encompasses about 165,000 total clubs, and in terms of total members, almost 140 million total members. That's one piece of the business and we sell direct to those numbers of gyms.

One of the things that we track that we have not yet communicated is the number of gyms that we currently sell to and our targets each quarter. We have not communicated that information externally because we just really had our first major exclusive success with Crunch. The other pieces of the business are the sporting good segment sold at retail. On a global basis, that's $145 billion that's growing at 5% compound annually over the past four years. The US part of that business is $64 billion, which is growing 4% compound annually.

Internationally, we already sell into that segment in the 20 countries in which our business is commercialized, but as we talked about our third pillar of our strategy is to penetrate US retail when we have, basically, the cash flow flexibility to be able to enter into that segment and do it right. We know we have the portfolio, we have the distribution systems, we have the ERP systems, we have everything that we need in terms of a retail ready portfolio and the experience outside the United States to begin to penetrate that segment with our broader functional fitness and MMA portfolio, but we have not been ready to do that yet.

It's really difficult to break out what's new within clubs and what's existing, but our penetration across clubs and retail is in the very early days across the board. That's why I think you're seeing this, kind of, consistent historical plus 40% revenue growth on the firm and accelerated growth as we focus on the key things that are driving the performance, and frankly the margin improvement. It's a wide open spectrum for us.

<Q>: If I'm a shareholder and I want this to work, do I have to hope that clubs are at a stage of the replacement cycle where they're getting rid of incumbent equipment and replacing it? Or do I have to hope that clubs continue to proliferate and open new doors?

**Brent Willis – Executive Chairman**
I don't think you have to hope on either because stuff wears out and one of the things that we've added to our portfolio is not just the big equipment, and cages, and octagons, and rings as we've had historically, but now we have a significant part of our portfolio in recurring items. The kettlebells, the gloves, the bags, the heavy bags those kinds of things, and those always wear out they get replaced. That's one of the reasons why you've seen the movement and improvement in our gross margin as our mix shifts.

Honestly, I don't think you have to hope for anything because these formats change quickly, they're always adding in new programming, which is essentially digital downloads that have fantastic margin. They're always adding in these recurring items, and they're always evolving the formats, whether it's a new Cross Training format, it's a new Transformation format, it's a new MMA format, it's a new dojo format; these formats are always changing and bringing in new things. In fact, you don't have to wait and hope for either new replacement or recurring items because they both happen on a consistent basis.

Dave, would you mind jumping in and adding any additional color to my comments?

**Dave Vautrin – Chief Executive Officer**

My pleasure. Thank you, Brent. I mentioned a few accounts earlier. To go back to the initial part of your question, this is the first time YMCA ever got into functional fitness. Gold's Gym, first time they've ever got into functional fitness. Several other key accounts that we are developing and what they're finding is there's momentum going on with the Cross Training industry.

I think for a lot of these health clubs realize they are starting to lose members over to this CrossFit type of momentum that is happening. They were losing members that were willing to spend a lot of money, but they wanted a different type of training. They wanted a functional fitness type of training, and so they all—it's almost obligatory where they absolutely need to get in this business and it's really early on.

Where we prevail is that we not only provide a fantastic portfolio of functional fitness equipment, but ours is all commercial grade. We have had the advantage of being tested by the UFC Gym, where they attempt to beat and destroy everything, so our equipment has really been tested. Now with that credibility, our success with Crunch, and some of our most recent launches, we are essentially the brand for the industry when it comes to functional fitness. There's a front load on there, but absolutely ongoing revenue with accessories.

I joke—I tell this story, I was in Jeddah last year and a client of ours, who we sold them all the hard goods and we're actually doing another launch with coming up, asked can I buy some accessories from you? I said no, we only sell the low-margin items. The truth is we've now transitioned to—into improving our margins on the hard goods, as well as launching the fitness accessories and we've got a fantastic strategy on all four fronts, but specifically on the health club side as we're talking about today.

<Q>: Thank you very much.

**Brent Willis – Executive Chairman**
Great questions though, thank you.

**Operator**
Thank you. (Operator instructions.)

**Brent Willis – Executive Chairman**
This is Brent here. We did have a write-in question that came in on our acquisition strategy which we talked about. In response to that, I would say it is certainly a business driver but we are focused on driving profitable organic growth.

As we communicated on the call, we have had some in depth conversations with potential targets but we have some very stringent qualifications for prospective acquisitions and key criterion for accretion, cost, and revenue synergies. Now that we have a public currency external growth is indeed one of our four pillars, but only done in the right ways that we are sure will deliver value for shareholders in the short-term. That was an answer to the acquisition question and how it fits in our priorities.

I saw we had another question on sustainability of the margins given they increase so much. Dave, would you mind? Or Dave and Bob, would you mind talking about the margins sustainability question we got?

**Dave Vautrin – Chief Executive Officer**
Sure, I'll just jump in and take this one here. Is it sustainable? Absolutely, and that's really based on three fronts. We have a deep established manufacturing relationships with our top suppliers, so we have really good visibility on our costs going forward. Secondly, we have projections and good visibility on demand by product and we can see the evolution of a higher margin recurring item in our portfolio. Finally, we're still implementing the transition of our fitness accessories to our primary suppliers, which have the potential to further improve margins.

**Brent Willis – Executive Chairman**
Thanks, Dave.  Any other questions, operator?

**Operator**
We have no phone questions at this time.

**Brent Willis – Executive Chairman**
Cool.  In that case thank you very much, and we will pass it back to you.