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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): **October 26, 2020**

FRANCHISE GROUP, INC.

(Exact name of registrant as specified in charter)

Delaware	001-35588	27-3561876
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

2387 Liberty Way, Virginia Beach, Virginia 23456
(Address of Principal Executive Offices) (Zip Code)

(757) 493-8855
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	**FRG**	**NASDAQ Global Market**
7.50% Series A Cumulative Perpetual Preferred Stock, par value $0.01 per share and liquidation preference of $25.00 per share	**FRGAP**	**NASDAQ Global Market**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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. ☐

Item 2.02 Results of Operations and Financial Condition.

On October 26, 2020, Franchise Group, Inc. (the “Company”) issued a press release announcing its preliminary results for the third quarter ended September 26, 2020. A copy of the press release is being furnished with this Current Report on Form 8-K as Exhibit 99.1.

Item 4.02 (a) Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.

As previously reported, on October 23, 2019, Franchise Group, Inc. (the “Company”) completed its acquisition of the Sears Outlet Segment and Buddy’s Home Furnishing Stores businesses of Sears Hometown and Outlet Stores, Inc., a Delaware corporation (“SHOS”), each as described in SHOS’s annual report on Form 10-K for the fiscal year ended February 2, 2019 (collectively, the “Business”) of SHOS, pursuant to the terms of the Equity and Asset Purchase Agreement (the “Purchase Agreement”), dated as of August 27, 2019, by and among SHOS, Franchise Group Newco S, LLC (“Newco S”) and the Company (solely for the purposes of Section 10.17 thereto, pursuant to which the Company guaranteed, among other things, the performance of Newco S’s obligations and the payment of amounts due to SHOS under the Purchase Agreement up to and including the closing of the Acquisition (the “Closing”), in addition to agreeing to fund a certain equity contribution to Newco S in order to consummate the Acquisition). At the Closing, pursuant to the Purchase Agreement, Newco S acquired the Business from SHOS (the “Acquisition”) through the purchase of certain assets and the assumption of certain liabilities, as well as the acquisition of the equity interests of certain subsidiaries of SHOS, in each case primarily used in or related to the Business, and the Company’s guarantee obligations under the Purchase Agreement terminated.

On January 8, 2020, the Company filed a Current Report on Form 8-K/A (the “Amendment No.1”) to provide certain financial statements of Sears Outlet Stores (a carve-out business of SHOS) (“Sears Outlet Stores”) required by Item 9.01 of Form 8-K, including unaudited combined financial statements of Sears Outlet Stores as of and for the twenty-six weeks ended August 3, 2019 and August 4, 2018 (the “Original Sears Outlet Interim Financial Statements”). Amendment No. 1 also included unaudited pro forma financial information required by Item 9.01 of Form 8-K that illustrated certain effects of the Company’s acquisition of Sears Outlet in addition to other recent transactions and business acquisitions of the Company (the “January Pro Forma Financial Statements”).

On October 20, 2020, the Chief Financial Officer of the Company determined that the Original Sears Outlet Interim Financial Statements should no longer be relied upon. In reviewing the accounting practices of Sears Outlet Stores subsequent to the closing of the acquisition, the Company has determined that the Original Sears Outlet Interim Financial Statements contain errors related to carve-out adjustments recorded to allocate Sears Hometown and Outlet, Inc.’s corporate costs and other shared accounts and adjustments to correct certain financial statement presentation matters, including the presentation of the non-cash impact of the adoption of FASB Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842) in the statement of cash flows for the twenty-six weeks ended August 3, 2019, and errors related to footnote disclosures.

The Chief Financial Officer of the Company discussed the matters with BDO USA LLP, the previous independent auditor of Sears Outlet Stores.

The Company is concurrently filing a Current Report on Form 8-K/A (“Amendment No. 2”) that includes restated unaudited combined financial statements of Sears Outlet Stores as of and for the twenty-six weeks ended August 3, 2019 and August 4, 2018 (the “Restated Sears Outlet Interim Financial Statements”), which supersede in their entirety the Original Sears Outlet Interim Financial Statements. While the restatement of the Original Sears Outlet Interim Financial Statements would have had an impact on the January Pro Forma Financial Statements, the Company later filed a Current Report on Form 8-K/A on June 19, 2020 that included unaudited pro forma financial statements of the Company (the “June Pro Forma Financial Statements”), which included the acquisition of Sears Outlet Stores in addition to certain business acquisitions and transactions completed by the Company following the filing of Amendment No. 1. The Company is filing a separate Current Report on Form 8-K/A concurrently with this Current report on Form 8-K/A to provide corrections to certain errors included in the June Pro Forma Financial Statements.

The restatement of the Original Sears Outlet Interim Financial Statements primarily resulted in:

- Combined Balance Sheets changes:

  - Prepaid expenses and other current assets decreased $0.8 million as of August 4, 2018;
  - Property and Equipment, net decreased 0.6 million as of August 3, 2019;
  - Operating Lease Right of Use Assets decreased $0.7 million as of August 3, 2019;
  - Payable to related party decreased $1.3 million as of August 3, 2019;
  - Accounts payable decreased $2.5 million and $1.6 million as of August 3, 2019 and August 4, 2018, respectively;
  - Current operating lease liability increased $0.3 million as of August 3, 2019;
  - Other current liabilities increased $7.7 million and $2.8 million as of August 3, 2019 and August 4, 2018, respectively;
  - Long Term Operating Lease Liability decreased $1.8 million as of August 3, 2019;
  - Equity decreased $4.0 million and $1.9 million as of August 3, 2019 and August 4, 2018, respectively;
  - Total current assets decreased $0.1 million, Total Assets decreased $1.4 million, Total current liabilities increased $4.3 million, and Total Liabilities increased $2.5 million as of August 3, 2019; and
  - Total current assets decreased $0.4 million, Total Assets decreased $0.4 million, Total current liabilities increased $1.4 million, and Total Liabilities increased $1.5 million as of August 4, 2018.

- Combined Statements of Operations changes:

  - Net Sales decreased $0.7 million for the twenty-six weeks ended August 3, 2019
  - Selling and administrative expenses increased $7.2 million and $0.4 million for the twenty-six weeks ended August 3, 2019 and August 4, 2018, respectively;
  - Gain on sale of assets decreased $0.7 million for the twenty-six weeks ended August 3, 2019;
  - Depreciation and amortization expense increased $0.3 million and $0.4 million for the twenty-six weeks ended August 3, 2019 and August 4, 2018, respectively;
  - Income tax expense decreased $0.3 million for the twenty-six weeks ended August 3, 2019 and August 4, 2018;
  - Total costs and expenses increased $8.3 million, operating income decreased $8.4 million, and Net Income decreased $8.2 million for the twenty-six weeks ended August 3, 2019; and
  - Total costs and expenses increased $0.3 million, operating income decreased $1 million, and Net Income decreased $0.7 million for the twenty-six weeks ended August 4, 2018.

- Combined Statements of Changes in Equity:

  - Net income decreased $8.8 million and $1,5 million for the twenty-six weeks ended August 3, 2019 and August 4, 2018, respectively; and
  - Transfers to parent decreased $4.8 million $0.4 million for the twenty-six weeks ended August 3, 2019 and August 4, 2018, respectively

- Combined Statements of Cash Flows changes:

  - Net cash used in operating activities decreased $105.6 million for the twenty-six weeks ended August 3, 2019, mainly related to Topic 842, and net cash provided by operating activities increased $5.0 million for the twenty-six weeks ended August 3, 2018;
  - Net cash provided by investing activities decreased $1.9 million for the twenty-six weeks ended August 3, 2019 and net cash provided by investing activities decreased $5.1 million for the twenty-six weeks ended August 3, 2018; and

- Net cash provided by financing activities decreased $103.6 million for the twenty-six weeks ended August 3, 2019, mainly related to Topic 842, and net cash used in financing activities decreased $0.1 million for the twenty-six weeks ended August 3, 2018.

- Notes to Combined Financial Statements changes:

  - Related footnote amounts were corrected to conform to the restatements to the Original Sears Outlet Interim Financial Statements;
  - Revisions to future minimum lease payments under operating leases at August 3, 2019 in Note 8 – Leases;
  - Inclusion of quantitative disclosure for Transactions with Parent for the twenty-six weeks ended August 3, 2019 and August 4, 2018 in Note 7 – Related Party Agreements and Transactions; and
  - Other footnote restatements for clerical related items.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

99.1	Press Release, dated October 26, 2020.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

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 hereunto duly authorized.

Franchise Group, Inc.

Date: October 26, 2020

By: /s/ Eric Seeton

Eric Seeton

Chief Financial Officer

Exhibit 99.1

Franchise Group, Inc. Provides Preliminary Third Quarter Operating Statistics

Third Quarter Earnings Release and Conference Call Scheduled for November 4, 2020

ORLANDO, Fla., October 26, 2020 (GLOBE NEWSWIRE) -- Franchise Group, Inc. (NASDAQ: FRG) ("Franchise Group" or the "Company") today is providing preliminary operating statistics for the third quarter of fiscal 2020.

Based on a preliminary assessment, we expect to report:

- Revenue for the three months ended September 26, 2020 of at least $550.0 million.
- Revenue for the nine months ended September 26, 2020 of at least $1,655.0 million.
- Net income/(loss) for the three months ended September 26, 2020 of at least $(9.5) million.
- Net income for the nine months ended September 26, 2020 of at least $28.4 million.
- Adjusted EBITDA for the three months ended September 26, 2020 of at least $47.5 million.
- Adjusted EBITDA for the nine months ended September 26, 2020 of at least $194.5 million.
- Supplemental Information for the three months ended September 26, 2020 of at least $0.6 million.
- Supplemental Information for the nine months ended September 26, 2020 of at least $28.6 million.
- For the third quarter comparable same stores sales for American Freight were up approximately 15%, Buddy's were up approximately 14.7% and The Vitamin Shoppe were up approximately 8.6%.

In order to conform with SEC rules and regulations for non-GAAP reporting, Franchise Group will not be reporting synergies and other acquisition costs as part of Pro Forma Adjusted EBITDA. The Company will continue to report Adjusted EBITDA in the same format as it has in the past and will provide Supplemental Information that reflects cost synergies and other acquisition impacts as discussed below. The specific amounts included in each disclosure are fully discussed in detail below in the Non-GAAP Financial Measures and Key Metrics.

Conference Call Information

Franchise Group will conduct a conference call on November 4th at 4:30 P.M. ET to discuss its business, financial results for the third quarter of 2020 and provide an update on its outlook for the rest of 2020. A real-time webcast of the conference call will be available on the Events page of Franchise Group's website at www.franchisegrp.com. The conference call can also be accessed live via telephone at (877) 784-1793. The passcode is 7849566. Please dial in 5-10 minutes prior to the scheduled start time.

Non-GAAP Financial Measures and Key Metrics

Management defines and calculates Adjusted EBITDA as net income (loss) before interest, income taxes, depreciation and amortization adjusted for certain non-core or non-operational items related to executive severance and related costs, stock-based compensation, shareholder litigation costs, corporate governance costs, accrued judgements and settlements, net of estimated revenue, store closures, rebranding costs, acquisition costs, inventory fair value step up amortization and prepayment penalty on early debt repayment.

Management believes the presentation of these measures is useful to investors as supplemental measures in evaluating the aggregate performance of our operating businesses and in comparing our results from period to period because they exclude items that we do not believe are reflective of our core or ongoing operating results. These measures are used by our management to evaluate performance and make resource allocation decisions each period. Adjusted EBITDA is also the primary operating metric used in the determination of executive management's compensation. Adjusted EBITDA should not be considered in isolation or as a substitute for net income or other income statement information prepared in accordance with GAAP and our presentation of these non-GAAP measures may not be comparable to similarly titled measures used by other companies.

The Supplemental Information is provided to reflect the estimated cost savings related to various management actions taken at our acquired businesses and other impacts of our acquisitions. The information primarily presents the realized and unrealized cost synergies assuming such actions were taken as of January 1, 2020. The majority of the cost synergies or dis-synergies have been realized or are expected to be realized by the end of 2020. Management believes this information is useful to investors as it provides relevant information regarding the status of the Company's transformation activities and the estimated impacts during the period. Reasonable estimates were made by considering the cost reductions from contract termination charges or modifications to achieve more favorable pricing, reductions in duplicative costs upon integration and optimization activities that reduce overall spend. As these amounts are estimates and certain activities have not fully been implemented, these amounts are subject to change. Management believes that there is a reasonable basis for its estimates and they fairly present the estimated effects of management actions related to the Company's acquisitions.

Below is a reconciliation of management's estimate of net income to estimated Adjusted EBITDA for the three months and nine months ended September 26, 2020.

	Three Months Ended September 26, 2020 *At least*	Nine Months Ended September 26, 2020 *At least*
	($ in millions)	
Non-GAAP Reconciliation:		
Net Income/(Loss)	$ (9.5)	$ 28.4
Add back:		
Interest expense, net	25.5	82.9
Income tax expense	–	(44.0)
Depreciation and Amortization	17.0	50.8
Total Adjustments	42.5	89.7
EBITDA	33.0	118.0
Adjustments to EBITDA		
Executive severance and related costs	0.7	6.0
Stock based compensation	2.0	6.3
Shareholder litigation costs	0.2	0.5
Corporate governance costs	0.3	0.4
Accrued judgments and settlements	0.3	(0.8)
Store closures	0.2	0.7
Rebranding costs	1.3	4.6
Acquisition costs	1.3	18.3
Inventory fair value step up amortization	7.0	35.2
Debt prepayment penalty	1.2	5.3
Total Adjustments to EBITDA	14.5	76.4
Adjusted EBITDA	$ 47.5	$ 194.5

	Three Months Ended September 26, 2020 *At least*		Nine Months Ended September 26, 2020 *At least*	
	(*$ in millions*)			
Supplemental Information: Cost Synergies and Acquisition Impacts				
Estimated realized and unrealized costs savings	$	0.6	$	25.6
Other acquisition related compensation costs		0		3.0
Supplemental Information	$	0.6	$	28.6

Preliminary Financial Information

The preliminary financial results and other information provided above are subject to the completion of the Company's financial closing procedures, final adjustments and any other developments that may arise between now and the time the financial results for the third quarter of 2020 are finalized, including the impact of COVID-19 on the Company's business. Therefore, this information represents management estimates that constitute forward-looking statements subject to risks and uncertainties. As a result, the preliminary financial results and other information described above may materially differ from the actual results that will be reflected in the consolidated financial statements for the quarter when they are completed and publicly disclosed. In addition, preliminary results for the third quarter are not necessarily indicative of operating results for any future quarter or results for the full year.

About Franchise Group, Inc.

Franchise Group is an operator of franchised and franchisable businesses that continually looks to grow its portfolio of brands while utilizing its operating and capital allocation philosophy to generate strong cash flow for its shareholders. Franchise Group's business lines include Liberty Tax Service, Buddy's Home Furnishings, American Freight and The Vitamin Shoppe. On a combined basis, Franchise Group currently operates over 4,000 locations predominantly located in the U.S. and Canada that are either Company-run or operated pursuant to franchising agreements.

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, projections, predictions, expectations, or beliefs about future events or results and are not statements of historical fact, including the Company's expectations regarding its financial condition, its preliminary third quarter financial results, and the effects of the coronavirus (COVID-19) pandemic on economic conditions and the industry in general, and the financial position and operating results of the Company. Such forward-looking statements are based on various assumptions as of the time they are made, and are inherently subject to known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements are often accompanied by words that convey projected future events or outcomes such as "expect," "believe," "estimate," "plan," "project," "anticipate," "intend," "will," "may," "view," "opportunity," "potential," or words of similar meaning or other statements concerning opinions or judgment of the Company or its management about future events. Although the Company believes that its expectations with respect to forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance, or achievements of the Company will not differ materially from any projected future results, performance or achievements expressed or implied by such forward-looking statements. Actual future results, performance or achievements may differ materially from historical results or those anticipated depending on a variety of factors, many of which are beyond the control of the Company. We refer you to the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of the Company's Transition Report on Form 10-K/T for the transition period ended December 28, 2019, and comparable sections of the Company's Quarterly Reports on Form 10-Q and other filings, which have been filed with the SEC and are available on the SEC's website at www.sec.gov. All of the forward-looking statements made in this press release are expressly qualified by the cautionary statements contained or referred to herein. The actual results or developments anticipated may not be realized or, even if substantially realized, they may not have the expected consequences to or effects on the Company or its business or operations. Readers are cautioned not to rely on the forward-looking statements contained in this press release. Forward-looking statements speak only as of the date they are made and the Company does not undertake any obligation to update, revise or clarify these forward-looking statements, whether as a result of new information, future events or otherwise.

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