Roots Reports Results for Third Quarter Fiscal Year 2017

TORONTO, December 5, 2017 – Roots ("Roots," "Roots Canada" or the "Company") (TSX: ROOT), an iconic Canadian lifestyle brand, today announced financial results for the third quarter ended October 28, 2017 ("Q3 2017"). All financial results are reported in Canadian dollars unless otherwise stated. Certain metrics, including those expressed on an adjusted or comparable basis, are non-IFRS measures. See "Non-IFRS Measures and Industry Metrics" below.

Third Quarter Highlights

- Total sales increased 13.0% compared to the third quarter of fiscal year 2016 ("Q3 2016"), to $89.7 million
- Comparable sales growth of 10.1%
- Gross margin expanded 180 basis points over Q3 2016, to 54.9%
- Adjusted EBITDA increased 20.5% over Q3 2016, to $16.3 million
- Reported EPS decreased 15.7% compared to Q3 2016, to $0.12 per share, and adjusted EPS increased 25.9% over Q3 2016, to $0.23 per share

Jim Gabel, President and Chief Executive Officer of Roots Corporation, commented, "We are pleased to have delivered strong financial results for the third quarter, which demonstrates the strength of our brand and the early momentum of our operational investments and strategic growth initiatives. In addition to delivering 10.1% comparable sales growth, we continued to make progress on our growth plans, including the expansion of our Canadian and international footprint, and increased penetration of our e-commerce business."

Gabel continued, "Our recent IPO was a significant milestone for Roots and we are very excited to take this important step forward in our development. While we are very proud of all that we have achieved thus far, we believe we are in the very early innings of unlocking our potential to capture the tremendous opportunity that lies ahead."

Summary of Third Quarter Financial Results

Total sales increased by 13.0% to $89.7 million from $79.4 million in Q3 2016. Sales in the Direct-to-Consumer ("DTC") segment were $77.2 million, a 14.0% increase, as compared to $67.7 million in Q3 2016. The strong DTC segment results were driven by comparable sales growth of 10.1%, and the opening of four net new corporate retail stores since Q3 2016. We have also renovated or expanded five corporate retail stores since Q3 2016, including the expansion of our store within Yorkdale Shopping Centre, Toronto, Ontario, which became our first enhanced experience store in Canada. Our increased investments in marketing and people are continuing to contribute nicely to our results. Sales in the Partners and Other segment were $12.5 million, a 7.1% increase, as compared to $11.7 million Q3 2016.

Partners and Other segment results were driven by strength across all divisions, including the opening of 11 net new stores in Asia by our partner since Q3 2016.

Gross profit increased by 16.9% to $49.3 million from $42.1 million in Q3 2016. Gross profit margin increased 180 basis points to 54.9% from 53.1% in Q3 2016. Gross profit in the DTC segment increased by 17.8%, with gross margin expansion of 190 basis points to 59.1%, driven by our United Brand Range, or UBR, with improved sourcing and more full-price selling. DTC gross margin also benefited from favorable FX rates on goods purchased in US dollars. Gross profit in the Partners and Other segment increased by 6.9%, with gross margin of 29.1%, driven by an increase in wholesale sales to our operating partner in Asia.

Selling, general and administrative expenses were $40.8 million, as compared to $32.3 million in Q3 2016, driven by incremental costs to support higher sales, investments made in the growth of our business, and costs incurred in relation to the Initial Public Offering.

Adjusted EBITDA increased by 20.5% to $16.3 million from $13.5 million in Q3 2016.

The effective tax rate was 28.2%, as compared to 29.1% in Q3 2016. The decrease in the effective tax rate was primarily driven by less non-deductible expenses incurred in Q3 2017 compared to Q3 2016.

Net income was $5.0 million, or $0.12 per share, as compared to $5.9 million, or $0.14 per share, in Q3 2016.

Adjusted net income increased by 25.9% to $9.5 million, or $0.23 per share, as compared to $7.6 million, or $0.18 per share, in Q3 2016.

Outlook

Based on our strong performance in the third quarter and year-to-date, the power of our brand and business model, and the ongoing progress we are making towards the execution of our UBR and growth strategies, we are on track to achieve the following financial targets by the end of fiscal 2019:

- Sales of $410 million to $450 million, which implies a compounded annual growth rate (“CAGR”) of 13% to 17% from fiscal 2016 to fiscal 2019;
- Adjusted EBITDA of $61 million to $68 million, which implies a CAGR of 14% to 18% from fiscal 2016 to fiscal 2019; and
- Adjusted net income of $35 million to $40 million, which implies a CAGR of 18% to 23% from fiscal 2016 to fiscal 2019.

Conference Call Information

A conference call to discuss third quarter financial results is scheduled for December 5, 2017, at 8:00 a.m. ET. The conference call can be accessed live over the phone by dialing 1-877-407-3982 (U.S. and Canada), or 1-201-493-6780 (International). A replay will be available from 11:00 a.m. ET on December 5, 2017

through December 12, 2017, and can be accessed by dialing 1-844-512-2921 (U.S. and Canada), or 1-412-317-6671 (International), and entering replay passcode 13673768.

About Roots

Established in 1973, Roots is an iconic Canadian lifestyle brand with a rich heritage and portfolio of premium apparel, leather goods, accessories and footwear. Roots delivers products to customers through its store network, online platform and international partnerships. As of October 28, 2017, Roots' integrated omni-channel footprint included 120 company retail stores in Canada, 4 company retail stores in the United States, 109 partner-operated stores in Taiwan, 29 partner-operated stores in China and a global e-commerce platform that shipped to 54 countries during Roots' most recently completed fiscal year. Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada".

Non-IFRS Measures and Industry Metrics

This press release makes reference to certain non-IFRS measures including certain metrics specific to the industry in which we operate. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures are not intended to represent, and should not be considered as alternatives to net income or other performance measures derived in accordance with IFRS as measures of operating performance or operating cash flows or as a measure of liquidity. In addition to our results determined in accordance with IFRS, we use non-IFRS measures including EBITDA, adjusted EBITDA, adjusted net income, and adjusted net income per share. This press release also refers to comparable sales growth, a commonly used metric in our industry but that may be calculated differently compared to other companies. We believe these non-IFRS measures and industry metrics provide useful information to both management and investors in measuring our financial performance and condition and highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. Definitions and reconciliations of non-IFRS measures to the relevant reported measures can be found in our MD&A under "Cautionary Note Regarding Non-IFRS Measures and Industry Metrics", which is available on SEDAR at www.sedar.com.

Forward-Looking Information

Certain information in this press release contains forward-looking information. This information is based on management's reasonable assumptions and beliefs in light of the information currently available to us and are made as of the date of this press release. Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of various factors. Information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. Statements containing forward-looking information are not facts but instead represent management's expectations, estimates and projections regarding future events or circumstances. Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements.

See “About this Prospectus – Forward-Looking Information” and “Risk Factors” in the Company's final prospectus filed in connection with its initial public offering on October 18, 2017 for a discussion of the uncertainties, risks and assumptions associated with these statements. Readers are urged to consider the uncertainties, risks and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information. We have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law.

Selected Interim Condensed Consolidated Financial Information

The select financial information contained below should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the 13 and 39 week periods ended October 28, 2017, including the related notes thereto, and the related MD&A. These documents are available on SEDAR at www.sedar.com.

Interim Condensed Consolidated Statement of Net Income (Loss):

(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	October 28, 2017 (13 weeks)	October 29, 2016 (13 weeks)	October 28, 2017 (39 weeks)	October 29, 2016 (39 weeks)
Sales	$ 89,690	$ 79,384	$ 196,036	$ 170,714
Cost of goods sold	40,420	37,235	89,804	87,306
Gross profit	49,270	42,149	106,232	83,408
Selling, general and administrative expenses	40,784	32,346	105,989	91,607
Income (loss) before interest expense and income taxes expense (recovery)	8,486	9,803	243	(8,199)
Interest expense	1,551	1,473	4,531	4,515
Income (loss) before income taxes	6,935	8,330	(4,288)	(12,714)
Income taxes expense (recovery)	1,956	2,427	(928)	(3,705)
Net income (loss)	$ 4,979	$ 5,903	$ (3,360)	$ (9,009)
Basic and diluted earnings (loss) per share	$ 0.12	$ 0.14	$ (0.08)	$ (0.21)

Interim Condensed Consolidated Statement of Comprehensive Income (Loss):

(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	October 28, 2017 (13 weeks)	October 29, 2016 (13 weeks)	October 28, 2017 (39 weeks)	October 29, 2016 (39 weeks)
Net income (loss)	$ 4,979	$ 5,903	$ (3,360)	$ (9,009)
Other comprehensive income (loss), net of taxes:				
Items that may be subsequently reclassified to profit or loss:				
Effective portion of changes in fair value of cash flow hedges	1,025	-	(1,049)	-
Cost of hedging excluded from cash flow hedges	13	-	76	-
Tax impact of cash flow hedges	(277)	-	259	-
Total comprehensive income (loss)	$ 5,740	$ 5,903	$ (4,074)	$ (9,009)

Interim Condensed Consolidated Statement of Financial Position:

(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	As at October 28, 2017	As at January 28, 2017
Assets		
Current assets:		
Cash	$ 1,026	$ 25,257
Accounts receivable	5,563	4,946
Inventories	57,115	32,682
Prepaid expenses	1,906	1,573
Total current assets	65,610	64,458
Non-current assets:		
Loan receivable	520	520
Fixed assets	36,109	31,219
Intangible assets	204,732	208,541
Goodwill	52,705	52,705
Total non-current assets	294,066	292,985
Total assets	$ 359,676	$ 357,443
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ 5,588	$ –
Accounts payable and accrued liabilities	22,289	16,448
Deferred revenue	3,198	3,840
Income taxes payable	3,472	5,536
Current portion of long-term debt	4,984	5,550
Derivative liabilities	158	–
Total current liabilities	39,689	31,374
Non-current liabilities:		
Deferred tax liabilities	22,080	21,248
Deferred lease costs	4,007	2,154
Finance lease obligation	908	456
Long-term debt	112,814	98,909
Other non-current liabilities	1,859	2,118
Total non-current liabilities	141,668	124,885
Total liabilities	181,357	156,259
Shareholders' equity:		
Common shares	195,994	195,994
Contributed surplus	1,094	483
Accumulated other comprehensive loss	(116)	–
Retained earnings (deficit)	(18,653)	4,707
Total shareholders' equity	178,319	201,184
Total liabilities and shareholders' equity	$ 359,676	$ 357,443

Interim Condensed Consolidated Statement of Cash Flows:

(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	October 28, 2017 (39 weeks)	October 29, 2016 (39 weeks)
Cash provided by (used in):		
Operating activities:		
Net loss	$ (3,360)	$ (9,009)
Items not involving cash:		
Depreciation and amortization	8,043	7,085
Share-based compensation expense	611	347
Deferred lease costs	592	1,230
Amortization of lease intangibles	701	964
Interest expense	4,531	4,515
Income taxes recovery	(928)	(3,705)
Interest paid	(4,039)	(4,070)
Taxes paid	(262)	(181)
Change in non-cash operating working capital:		
Accounts receivable	(617)	(170)
Inventories	(24,433)	(13,041)
Prepaid expenses	(333)	(431)
Accounts payable and accrued liabilities	5,998	6,611
Deferred revenue	(642)	(1,003)
	(14,138)	(10,858)
Financing activities:		
Issuance of long-term debt	21,000	11,000
Long-term debt financing costs	(999)	-
Repayment of long-term debt	(7,162)	(2,775)
Issuance of common shares	-	250
Finance lease payments	(118)	-
Distributions paid	(20,000)	-
	(7,279)	8,475
Investing activities:		
Additions to fixed assets	(9,664)	(8,358)
Tenant allowance received	1,262	699
	(8,402)	(7,659)
Decrease in cash	(29,819)	(10,042)
Cash, beginning of period	25,257	11,151
Cash and bank indebtedness, end of period	$ (4,562)	$ 1,109

Reconciliation of Net Income (Loss) to EBITDA, Adjusted EBITDA, and Adjusted Net Income:

(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	October 28, 2017 (13 weeks)	October 29, 2016 (13 weeks)	October 28, 2017 (39 weeks)	October 29, 2016 (39 weeks)
Net income (loss)	$ 4,979	$ 5,903	$ (3,360)	$ (9,009)
Add the impact of:				
Interest expense	1,551	1,473	4,531	4,515
Income taxes expense (recovery)	1,956	2,427	(928)	(3,705)
Depreciation and amortization	2,701	2,422	8,043	7,085
EBITDA	11,187	12,225	8,286	(1,114)
Add the impact of:				
COGS/SG&A: Purchase accounting adjustments (a)	192	332	701	6,738
SG&A: Offering transaction costs (b)	3,297	-	3,503	-
SG&A: Shareholder fees and related costs (c)	492	171	1,217	1,080
SG&A: Acquisition transaction costs (d)	-	6	29	305
SG&A: Fixed asset impairments (e)	-	-	-	-
SG&A: Legacy stock option expense (f)	388	128	583	347
SG&A: Other non-recurring items (g)	587	267	1,018	1,390
SG&A: Non-cash rent adjustments (h)	167	410	591	1,230
Adjusted EBITDA	$ 16,310	$ 13,539	$ 15,928	$ 9,976

	October 28, 2017 (13 weeks)	October 29, 2016 (13 weeks)	October 28, 2017 (39 weeks)	October 29, 2016 (39 weeks)
Net income (loss)	$ 4,979	$ 5,903	$ (3,360)	$ (9,009)
Add the impact of:				
COGS/SG&A: Purchase accounting adjustments (a)	192	332	701	6,738
SG&A: Offering transaction costs (b)	3,297	-	3,503	-
SG&A: Shareholder fees and related costs (c)	492	171	1,217	1,080
SG&A: Acquisition transaction costs (d)	-	6	29	305
SG&A: Fixed asset impairments (e)	-	-	-	-
SG&A: Stock option expense (f)	388	128	583	347
SG&A: Other non-recurring items (g)	587	267	1,018	1,390
SG&A: Non-cash rent adjustments (h)	167	410	591	1,230
SG&A: Amortization of intangible assets acquired by Searchlight (i)	949	918	2,847	2,775
Total adjustments	6,072	2,232	10,489	13,865
Tax effect of adjustments	(1,515)	(560)	(2,638)	(3,582)
Adjusted Net Income	$ 9,536	$ 7,575	$ 4,491	$ 1,274

Notes:

(a) In connection with the Acquisition, we recognized acquired inventory at fair value in accordance with IFRS 3, which included a mark-up for profit. Recording inventory at fair value in purchase accounting had the effect of increasing inventory and therefore will increase cost of goods sold in subsequent periods as compared to the amounts we would have recognized if inventory was sold through at cost. This inventory was sold in Fiscal 2015 and Fiscal 2016 and has impacted net income and EBITDA during those periods. As a result of the Acquisition, we also recognized an intangible asset for lease arrangements in the amount of $6,310, which is amortized over the life of the leases and included in SG&A expenses. In our view, these costs do not reflect the underlying

profitability of the business and would reduce the ability to compare such underlying results to historical periods prior to the Acquisition.

(b) In connection with the Offering, we incurred expenses related to professional fees, legal, consulting, accounting, and travel that would otherwise not have been incurred and are not recurring.

(c) Represents the amount paid pursuant to the management agreement with Searchlight and consulting agreements with the Founders and certain of their family members for ongoing consulting and other services. Subsequent to the Offering, the management agreement and Founder consulting services were terminated, and neither Searchlight nor the Founders and their family members will receive these fees from us in relation thereto going forward.

(d) In connection with the Acquisition, we incurred expenses related to professional fees, legal, consulting, and accounting that would otherwise not have been incurred and are not recurring.

(e) Represents an impairment charge taken against certain leasehold improvements for stores where the forecast cash flows were deemed to be below the carrying value.

(f) Represents non-cash share-based compensation expense in respect of the Legacy Equity Incentive Plan and the Legacy Employee Option Plan (each as defined in the Interim Financial Statements). The options granted under the Legacy Equity Incentive Plan and the Legacy Employee Option Plan were one-time events as part of putting in place and incentivizing our management team following the Acquisition. No additional options will be granted under the Legacy Equity Incentive Plan and the Legacy Employee Option Plan following the Offering.

(g) Predominately represents expenses incurred in respect of the following matters: (i) one-time recruitment costs incurred as part of the Company's initial efforts to put in place its current senior management team, namely the Chief Executive Officer, the Chief Financial Officer and the Chief Merchandising Officer; (ii) consulting costs in respect of the Company's UBR initiative relating to a non-recurring project to redefine the Roots brand and product offering under the new senior management team; and (iii) consulting fees in respect of the Company's distribution center capacity and expansion study relating to a project that began in late-2016 and is expected to be completed by early-2018. These costs have been identified as one-time costs incurred in conjunction with the Acquisition and the implementation of a new senior management team. Management has determined that each of the above projects are non-recurring or infrequent in nature and, accordingly, such matters do not reflect the underlying profitability of the business and their inclusion would, therefore, reduce the ability to compare such underlying results to historical periods.

(h) Under IFRS, we are required to recognize rent expense on a straight-line basis over the life of the lease. This adjustment removes the portion of the straight-line rent adjustment that is non-cash expense in the applicable financial period.

(i) As a result of the Acquisition, intangibles relating to customer relationships of $7,766 with a useful life of 10 years and licensing arrangements of $25,910 with useful lives ranging from four to 13 years were recognized in accordance with IFRS 3. The amortization expense resulting from the recognition of these intangible assets are non-cash in nature and are a direct result of the Acquisition. If the Acquisition had not occurred, such intangibles would not have been recognized and, consequently, the associated expenses would not have been incurred. Management is of the view that these costs do not reflect the underlying profitability of the business and would, therefore, reduce the ability to compare such underlying results to historical periods prior to the Acquisition.

Source: Roots Corporation

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