# Roots Reports First Quarter Fiscal 2018 Results

*Growth across retail stores and e-Commerce drives 9% increase in Direct-to-Consumer sales*

**TORONTO, June 13, 2018 –** Roots ("Roots," "Roots Canada" or the "Company") (TSX: ROOT), the premium lifestyle brand with a rich heritage and portfolio of apparel, hand crafted leather goods, footwear, and accessories, today announced its financial results for the first quarter ended May 5, 2018 ("Q1 2018"). 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.

**First Quarter Fiscal 2018 Highlights**

- Total sales increased 5.8% to $51.0 million compared to first quarter Fiscal 2017 ("Q1 2017")
    - Direct to Consumer ("DTC") sales increased 9.0% to $44.2 million compared to Q1 2017
- Comparable Sales Growth of 6.4%
- Gross margin expanded to 57.0% from 53.8% in Q1 2017
    - DTC Gross Margin increased 271 basis points to 59.1% from 56.4% in Q1 2017
- Selling, general and administrative expenses increased 12.3% to $35.3 million compared to Q1 2017
- Adjusted EBITDA was ($3.1) million compared to ($1.7) million in Q1 2017
- Basic Loss Per Share was $0.13 per share compared to $0.12 per share in Q1 2017, and Adjusted Net Loss Per Share was $0.11 compared to $0.09 per share in Q1 2017
- Opened two new corporate retail stores and renovated one store in North America, ending the quarter with 120 stores
- Opened two partner-operated stores in Taiwan to end the quarter with 30 stores in China and 112 stores in Taiwan, representing a total net addition of 10 stores compared to Q1 2017

"During the quarter, we continued to deliver on our strategic growth initiatives, which translated into accelerated Comparable Sales Growth of 6.4% versus 3.3% in Q1 2017, and a 9% increase in total Direct-to-Consumer sales," said Jim Gabel, President and Chief Executive Officer of Roots. "Our top-line improvements reflect retail store and e-Commerce sales growth, highlighting the strength of our brand, the consumers' response to our new products and our success in leveraging our position as a leading omni-channel retailer. We also benefitted from the strategic expansion of our retail footprint. We added stores in Canada and internationally, while also preparing for the opening of our brand activation centre and two new retail locations in the Boston market in the coming weeks and our Washington area stores in August. Further operating efficiencies, realized through our United Brand Range initiative, drove significant gross margin improvement, and our strategic investments in the business better position us for long-term success. As we look to the remainder of Fiscal 2018, we are confident in our ability to deliver continued growth and believe we remain on-track to achieve our Fiscal 2019 financial targets."

**Summary of First Quarter Fiscal 2018 Financial Results**

***Sales***

Total Q1 2018 sales increased 5.8% to $51.0 million from $48.2 million in Q1 2017. Sales in the DTC segment (corporate retail store and e-Commerce sales) increased 9.0% to $44.2 million compared to $40.5 million in Q1 2017. The year-over-year improvement in DTC sales was largely driven by Comparable Sales Growth of 6.4%, the opening of two net new corporate retail stores, as well as the renovation of two stores and renovation and expansion of three stores, since Q1 2017. Roots believes that both DTC sales and Comparable Sales Growth for the quarter would have been even higher, had the Company not faced a major ice storm across approximately 80% of its store network during the Company's semi-annual, four-day Customer Appreciation Event, the primary marketing and consumer event for the first half of the year.

Sales in the Partners and Other segment (wholesale Roots-branded products, royalties on partner retail sales, licensing to select manufacturing partners and the sale of certain custom Roots-branded products) for Q1 2018 were $6.9 million, representing an 11.0% decrease compared to $7.7 million in Q1 2017, largely reflecting the timing of certain sales to the Company's operating partner in Asia, which shifts into Q2 2018.

***Gross Profit***

Total gross profit for Q1 2018 increased 12.0% to $29.1 million from $26.0 million in Q1 2017.

Q1 2018 gross profit in the DTC segment increased 14.3% to $26.1 million, from $22.8 million in Q1 2017. Q1 2018 DTC Gross Margin was 59.1%, up 271 basis points from a Q1 2017 DTC Gross Margin of 56.4%. Year-over-year gross margin improvements primarily reflect the benefits of the Company's merchandising initiatives, including the two-year implementation of the United Brand Range, that are driving lower costs and facilitating more full-priced selling.

Gross profit in the Partners and Other segment was $3.0 million, a 4.7% decrease from $3.1 million in Q1 2017, largely reflecting the timing of certain sales to the Company's Asian partner, which Roots expects to shift into Q2 2018.

***Selling, general and administrative expenses***

Selling, general and administrative expenses for Q1 2018 were $35.3 million, up 12.3% compared to $31.4 million in Q1 2017. The year-over-year increase was primarily driven by incremental costs to support higher sales and strategic investments to drive the growth of the business. Year-over-year, marketing expense increased $0.7 million, the minimum wage increase in Ontario and Alberta accounted for an additional $0.4 million and public company costs were an incremental $0.4 million.

***Adjusted EBITDA, Net Income & Adjusted Net Income***

Reflecting the Company's sales growth and margin improvements, offset by increased strategic investments in the business, Adjusted EBITDA was ($3.1) million compared to ($1.7) million in Q1 2017.

Net loss was $5.6 million, or $0.13 per share, compared to $5.1 million, or $0.12 per share, in Q1 2017. Adjusted Net Loss was $4.5 million, or $0.11 per share, compared to $3.6 million, or $0.09 per share, in Q1 2017. As a result of fewer non-deductible expenses, the Company's effective tax rate was 24.3% for Q1 2018, as compared to 25.5% in Q1 2017. In the quarter, the Company also recorded an income tax recovery of $1.8 million, up from $1.7 million in Q1 2017.

**Outlook**

***New Integrated Distribution Centre***

As previously announced, Roots plans to integrate its retail store distribution and third-party e-Commerce fulfillment by moving into a new, larger, and technologically enhanced Distribution Centre. The Company expects the new facility to be up and running by mid-2019. Roots expects to make capital investments related to the facility of approximately $16.0 million through the end of Fiscal 2019, with the Company anticipating distribution centre-related cost per unit savings ("CPU") as a result of operating efficiencies and the benefits of integrating to one inventory. The Company expects these saving to be 20% or more, based on Fiscal 2020 CPU estimates, and expects to start recognizing the anticipated efficiencies and benefits, along with the associated CPU savings, in Fiscal 2020 and beyond.

***Fiscal 2019 Targets***

With the Company's continued foundation building work through Fiscal 2018, Roots expects its growth to align with its stated Fiscal 2019 targets. Management remains confident the Company is on track to achieve the following targets for Fiscal 2019:

- Sales of $410.0 million to $450.0 million
- Adjusted EBITDA of $61.0 million to $68.0 million
- Adjusted Net Income of $35.0 million to $40.0 million

**Conference Call and Webcast Information**

Roots will hold a conference call to discuss the Company's first quarter Fiscal 2018 financial results on June 13, 2018, at 8:00 a.m. ET. All interested parties can join the call by dialing 647-427-7450 or 1-888-231-8191 and using conference ID: 1083538. Please dial-in 15 minutes prior to the call to secure a line. The conference call will be archived for replay until June 20, 2018, at midnight and can be accessed by dialing 416-849-0833 or 1-855-859-2056 and entering replay passcode 1083538.

A live audio webcast of the conference call will be available on the Events and Presentations section of the Company's investor website at http://investors.roots.com or by following the link here. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to join the webcast. An archived replay of the webcast will be available on the Company's website for one-year.

See Interim Condensed Consolidated Financial Statements For the 13-week periods ended May 5, 2018 and April 29, 2017 and the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations for the First Quarter Ended May 5, 2018 on the Company's investor website at http://investors.roots.com and on SEDAR at www.SEDAR.com

**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 May 5, 2018, Roots integrated omni-channel footprint included 117 company retail stores in Canada, three company retail stores in the United States, 112 partner-operated stores in Taiwan, 30 partner-operated stores in China and a global e-commerce platform. 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 (Loss), and Adjusted Net Income (Loss) 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 or the Company's Investor Relations website at https://investors.roots.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 "Forward-Looking Information" and "Risk Factors" in the Company's Annual Information Form for the fiscal year ended February 3, 2018 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.

# ROOTS CORPORATION

Interim Condensed Consolidated Statement of Financial Position
(In thousands of Canadian dollars, except per share amounts)
(Unaudited – See Notice to Reader in the Company's Interim Condensed Consolidated Financial Statements for the 13-week periods ended May 5, 2018 and April 29, 2017)

| | As at May 5, 2018 | As at February 3, 2018 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash | $ 2,891 | $ 1,809 |
| Accounts receivable | 5,349 | 6,420 |
| Inventories | 39,331 | 35,407 |
| Prepaid expenses | 5,557 | 5,580 |
| Derivative assets | 1,199 | – |
| Total current assets | 54,327 | 49,216 |
| Non-current assets: | | |
| Loan receivable | 541 | 541 |
| Fixed assets | 40,330 | 36,981 |
| Intangible assets | 202,234 | 203,408 |
| Goodwill | 52,705 | 52,705 |
| Total non-current assets | 295,810 | 293,635 |
| Total assets | $ 350,137 | $ 342,851 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Bank indebtedness | $ 4,837 | $ – |
| Accounts payable and accrued liabilities | 19,192 | 18,306 |
| Deferred revenue | 4,166 | 4,647 |
| Income taxes payable | 3,309 | 6,589 |
| Current portion of long-term debt | 4,984 | 4,984 |
| Derivative obligations | – | 1,233 |
| Total current liabilities | 36,488 | 35,759 |
| Non-current liabilities: | | |
| Deferred tax liabilities | 22,315 | 21,166 |
| Deferred lease costs | 4,698 | 4,815 |
| Finance lease obligation | 802 | 894 |
| Long-term debt | 88,383 | 79,481 |
| Other non-current liabilities | 1,674 | 1,763 |
| Total non-current liabilities | 117,872 | 108,119 |
| Total liabilities | 154,360 | 143,878 |
| Shareholders' equity: | | |
| Common shares | 195,994 | 195,994 |
| Contributed surplus | 2,285 | 1,675 |
| Accumulated other comprehensive income (loss) | 880 | (904) |
| Retained earnings (deficit) | (3,382) | 2,208 |
| Total shareholders' equity | 195,777 | 198,973 |
| Total liabilities and shareholders' equity | $ 350,137 | $ 342,851 |

# ROOTS CORPORATION

Interim Condensed Consolidated Statement of Net Loss
(In thousands of Canadian dollars, except per share amounts)
(Unaudited – See Notice to Reader in the Company's Interim Condensed Consolidated Financial Statements for the 13-week periods ended May 5, 2018 and April 29, 2017)

For the 13-week periods ended May 5, 2018 and April 29, 2017

| | May 5, 2018 (13 weeks) | April 29, 2017 (13 weeks) |
|---|---|---|
| Sales | $ 51,029 | $ 48,231 |
| Cost of goods sold | 21,959 | 22,273 |
| Gross profit | 29,070 | 25,958 |
| Selling, general and administrative expenses | 35,304 | 31,430 |
| Loss before interest expense and income taxes recovery | (6,234) | (5,472) |
| Interest expense | 1,152 | 1,388 |
| Loss before income taxes | (7,386) | (6,860) |
| Income taxes recovery | (1,796) | (1,747) |
| Net loss | $ (5,590) | $ (5,113) |
| Basic and diluted loss per share | $ (0.13) | $ (0.12) |

# ROOTS CORPORATION

Interim Condensed Consolidated Statement of Comprehensive Loss
(In thousands of Canadian dollars, except per share amounts)
(Unaudited – See Notice to Reader in the Company's Interim Condensed Consolidated Financial Statements for the 13-week periods ended May 5, 2018 and April 29, 2017)

For the 13-week periods ended May 5, 2018 and April 29, 2017

| | May 5, 2018 (13 weeks) | April 29, 2017 (13 weeks) |
|---|---|---|
| Net loss | $ (5,590) | $ (5,113) |
| Other comprehensive income, net of taxes: | | |
| Items that may be subsequently reclassified to profit or loss: | | |
| Effective portion of changes in fair value of cash flow hedges | 2,435 | 1,020 |
| Cost of hedging excluded from cash flow hedges | (14) | (1) |
| Tax impact of cash flow hedges | (645) | (272) |
| Total comprehensive loss | $ (3,814) | $ (4,366) |

# ROOTS CORPORATION

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity
(In thousands of Canadian dollars, except per share amounts)
(Unaudited – See Notice to Reader in the Company's Interim Condensed Consolidated Financial Statements for the 13-week periods ended May 5, 2018 and April 29, 2017)

For the 13-week periods ended May 5, 2018 and April 29, 2017

| May 5, 2018 (13 weeks) | Share capital | Contributed surplus | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Total |
|---|---|---|---|---|---|
| Balance, February 4, 2018 | $ 195,994 | $ 1,675 | $ 2,208 | $ (904) | $ 198,973 |
| Net loss | – | – | (5,590) | – | (5,590) |
| Net gain from change in fair value of cash flow hedges, net of income taxes | – | – | – | 1,776 | 1,776 |
| Transfer of realized loss on cash flow hedges to inventories, net of income taxes | – | – | – | 8 | 8 |
| Share-based compensation | – | 610 | – | – | 610 |
| Balance, May 5, 2018 | $ 195,994 | $ 2,285 | $ (3,382) | $ 880 | $ 195,777 |

| April 29, 2017 (13 weeks) | Share capital | Contributed surplus | Retained earnings (deficit) | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|
| Balance, January 29, 2017 | $ 195,994 | $ 483 | $ 4,707 | $ – | $ 201,184 |
| Net loss | – | – | (5,113) | – | (5,113) |
| Net gain from change in fair value of cash flow hedges, net of income taxes | – | – | – | 747 | 747 |
| Transfer of realized loss on cash flow hedges to inventories, net of income taxes | – | – | – | (3) | (3) |
| Distributions declared | – | – | (20,000) | – | (20,000) |
| Share-based compensation | – | 102 | – | – | 102 |
| Balance, April 29, 2017 | $ 195,994 | $ 585 | $ (20,406) | $ 744 | $ 176,917 |

# ROOTS CORPORATION

Interim Condensed Consolidated Statement of Cash Flows
(In thousands of Canadian dollars, except per share amounts)
(Unaudited – See Notice to Reader in the Company's Interim Condensed Consolidated Financial Statements for the 13-week periods ended May 5, 2018 and April 29, 2017)

For the 13-week periods ended May 5, 2018 and April 29, 2017

| | May 5, 2018 (13 weeks) | April 29, 2017 (13 weeks) |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net loss | $ (5,590) | $ (5,113) |
| Items not involving cash: | | |
| Depreciation and amortization | 2,752 | 2,615 |
| Share-based compensation expense | 610 | 102 |
| Deferred lease costs (recovery) | (588) | 281 |
| Amortization of lease intangibles | 136 | 257 |
| Interest expense | 1,152 | 1,388 |
| Income taxes recovery | (1,796) | (1,747) |
| Interest paid | (1,011) | (1,233) |
| Taxes paid | (982) | (129) |
| Change in non-cash operating working capital: | | |
| Accounts receivable | 1,071 | (148) |
| Inventories | (3,924) | 555 |
| Prepaid expenses | 23 | (11) |
| Accounts payable and accrued liabilities | 886 | (718) |
| Deferred revenue | (481) | (499) |
| | (7,742) | (4,400) |
| Financing activities: | | |
| Issuance of long-term debt | 10,000 | 10,000 |
| Long-term debt financing costs | – | (466) |
| Repayment of long-term debt | (1,246) | (5,775) |
| Finance lease payments | (85) | – |
| | 8,669 | 3,759 |
| Investing activities: | | |
| Additions to fixed assets | (5,153) | (2,110) |
| Tenant allowance received | 471 | 284 |
| | (4,682) | (1,826) |
| Decrease in cash | (3,755) | (2,467) |
| Cash, beginning of period | 1,809 | 25,257 |
| Cash and bank indebtedness, end of period | $ (1,946) | $ 22,790 |

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