Roots Reports Fiscal 2020 Second Quarter Results

Company delivers year-over-year Adjusted EBITDA improvement despite retail sales decline due to negative COVID-19 impacts

TORONTO, September 10, 2020 – Roots ("Roots," "Roots Canada" or the "Company") (TSX: ROOT), a premium outdoor-lifestyle brand, today announced its financial results for its second quarter ended August 1, 2020 ("Q2 2020"). All financial results are reported in Canadian dollars unless otherwise stated. Certain metrics, including those expressed on an adjusted basis, are non-IFRS measures. See "Non-IFRS Measures and Industry Metrics".

Roots Q2 2020 financial results were significantly impacted by the COVID-19 pandemic, most notably the temporary closure of the Company's North American stores. Starting May 15, 2020, the Company began a phased reopening of its stores in accordance with government and health organization guidelines. By quarter end, Roots had opened all but one of its corporate retail stores, operating locations with reduced hours and strict social distancing measures in place. Roots stores were open for approximately 60% of the quarter.

Second Quarter Fiscal 2020 Highlights

- Total sales of $38.2 million, compared to $61.7 million in the second quarter of fiscal 2019 ("Q2 2019")
  - Direct-to-Consumer ("DTC") sales of $28.5 million, compared to $48.2 million in Q2 2019
- Gross margin of 54.7%, compared to 50.3% in Q2 2019
  - DTC Gross Margin of 62.2%, up 590 basis points from 56.3% in Q2 2019
- Selling, general and administrative expenses of $21.4 million, down from $40.0 million in Q2 2019
- Adjusted EBITDA of $1.1 million, up from ($4.4) million in Q2 2019
- Loss per Share of ($0.04), improved from ($0.23) per Share in Q2 2019, and Adjusted Net Loss per Share of ($0.04), improved from ($0.15) per Share in Q2 2019
- Ended the quarter with 113 corporate-retail stores in Canada and two in the United States
- Ended the quarter with 114 partner-operated stores in Taiwan, 34 in China and two in Hong Kong

"Roots is a trusted brand with a compelling product portfolio and well-developed omni-channel capabilities, the benefits of which were reflected in our Q2 results despite the difficult operating environment," said Meghan Roach, Chief Executive Officer, Roots. "Although moderating as stores reopened, eCommerce sales for the quarter nearly doubled year-over-year. We also delivered bottom line improvements, as we maintained a disciplined approach towards promotional activity and continued to tightly manage our costs. We believe the steps we have taken over the past six months have enabled us to successfully navigate challenges we have faced to date as a result of the pandemic, and will better position Roots for the future."

Summary of Second Quarter Fiscal 2020 Financial Results

Sales
Total Q2 2020 sales were $38.2 million, down 38.0% from total sales of $61.7 million in Q2 2019. Q2 2020 DTC sales (corporate retail store and eCommerce sales) were $28.5 million, down from $48.2 million in Q2 2019. This was due to temporary store closures, a phased reopening with reduced operating hours and strict social distancing measures in place, as well as store traffic trends that were below pre-pandemic levels, the impacts of which were partially offset by eCommerce sales that nearly doubled year-over-year.

Partners and Other sales (wholesale Roots-branded products, royalties on partner retail sales, licensing to select manufacturing partners and the sale of certain custom Roots-branded products) for Q2 2020 were $9.7 million, down from $13.5 million in Q2 2019, primarily as a result of COVID-19-related declines in the Company's partner-operated Asia business.

Gross Profit
Total gross profit for Q2 2020 was $20.9 million, down from $31.0 million in Q2 2019, predominantly reflecting the negative overall sales impact of COVID-19. Q2 2020 DTC gross profit was $17.7 million, down from $27.1 million in Q2 2019, and Partners and Other gross profit decreased to $3.2 million in Q2 2020, from $3.9 million in Q2 2019.

Q2 2020 DTC Gross Margin was 62.2%, up from 56.3% in Q2 2019. The 590-basis point improvement was predominantly a result of lower markdowns and a shift in mix toward higher margin product. In addition, the Company realized benefits from government wage subsidies, which were partially offset by the reclassification of certain costs (into cost of goods sold from selling, general and administrative expenses) with the Company's transition to in-house fulfillment of all eCommerce orders, as well as foreign exchange headwinds.

Selling, general and administrative expenses ("SG&A")
SG&A for Q2 2020 was $21.4 million, down from $40.0 million in Q2 2019. The year-over-year decrease predominantly reflects $11.8 million in savings driven by the Company's efforts to reduce costs across all areas of the business as a result of COVID-19, including a decrease in store wages as a result of temporary store closures, a phased reopening with reduced store operating hours and labour managed in accordance with store sales, rent savings and management of overall corporate costs. In addition, SG&A reflects $4.3 million in government wage subsidies (of the total $6.1 million benefit the Company recognized in the quarter) and $2.5 million in savings as a result of the permanent closure of seven U.S. stores in Q1 2020.

Adjusted EBITDA, Net income (loss) & Adjusted Net Income (Loss)
Reflecting factors discussed above, Adjusted EBITDA (which excludes the impact of IFRS 16) for Q2 2020 was $1.1 million, an improvement from ($4.4) million in Q2 2019, which includes ($1.3) million related to the Company's now closed U.S. stores.

Q2 2020 net loss of ($1.8) million, or ($0.04) loss per Share, improved from a net loss of ($9.7) million, or ($0.23) per share in Q2 2019. Adjusted Net Loss (which excludes the impact of IFRS 16) for Q2 2020 was ($1.9) million, or ($0.04) per share, an improvement from ($6.2) million, or ($0.15) per share, in Q2 2019.

Conference Call and Webcast Information

Roots will hold a conference call to discuss the Company's fiscal 2020 second quarter results on September 10, 2020 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: 8808708. Please dial-in 15 minutes prior to the call to secure a line. The conference call will be archived for replay until September 17, 2020 at midnight and can be accessed by dialing 416-849-0833 or 1-855-859-2056 and entering replay passcode: 8808708.

A live audio webcast of the conference call will be available on the Events and Presentations section of the Company's investor website at https://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 Roots Consolidated Financial Statements and the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations for the Second Quarter ended August 1, 2020 on the Company's investor website at https://investors.roots.com and on SEDAR at www.SEDAR.com.

About Roots

Established in 1973, Roots is a premium outdoor-lifestyle brand. We unite the best of cabin and city through unmistakable style built with uncompromising comfort and quality. We offer a broad range of products designed for life's everyday adventures, including: women's and men's apparel, leather goods, footwear, accessories, and kids, toddler and baby apparel. Starting from a little cabin in Algonquin Park, Canada, Roots has grown to become a global brand. As of August 1, 2020, we operated 113 corporate-retail stores in Canada, two corporate-retail stores in the United States, 114 partner-operated stores in Taiwan, 34 partner-operated stores in China, two partner-operated stores in Hong Kong and a global eCommerce platform, roots.com. Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada".

Non-IFRS Measures and Industry Metrics

Roots has historically reported Comparable Sales Growth as an additional metric to demonstrate the performance of its DTC business. However, as a result of the negative impacts COVID-19 has had on the apparel retail operating environment, including a period of store closures and a phased reopening process during the quarter, the Company does not believe that Comparable Sales Growth is a representative metric of Q2 2020 performance.

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 DTC Gross Margin, EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss), and Adjusted Net Income (Loss) per Share. 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 current Annual Information Form 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)
(Unaudited)

	As at August 1, 2020	As at February 1, 2020
Assets		
Current assets:		
Cash	$ 7,918	$ 949
Accounts receivable	10,408	7,158
Inventories	58,560	40,152
Prepaid expenses	2,153	5,418
Derivative assets	317	–
Total current assets	79,356	53,677
Non-current assets:		
Loan receivable	585	585
Lease receivable	1,351	1,511
Fixed assets	52,572	55,694
Right-of-use assets	89,403	128,322
Intangible assets	191,928	193,079
Goodwill	7,906	7,906
Total non-current assets	343,745	387,097
Total assets	$ 423,101	$ 440,774
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ –	$ 7,226
Accounts payable and accrued liabilities	43,521	20,252
Deferred revenue	5,381	6,011
Income taxes payable	36	2,008
Current portion of lease liabilities	22,799	26,569
Current portion of long-term debt	4,984	4,984
Derivative obligations	–	158
Total current liabilities	76,721	67,208
Non-current liabilities:		
Deferred tax liabilities	15,740	13,942
Long-term portion of lease liabilities	84,843	124,590
Long-term debt	104,235	84,528
Total non-current liabilities	204,818	223,060
Total liabilities	281,539	290,268
Shareholders' equity:		
Share capital	197,333	196,903
Contributed surplus	3,308	3,407
Accumulated other comprehensive income (loss)	214	(116)
Retained earnings (deficit)	(59,293)	(49,688)
Total shareholders' equity	141,562	150,506
Total liabilities and shareholders' equity	$ 423,101	$ 440,774

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Net Loss
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

For the 13 and 26 week periods ended August 1, 2020 and August 3, 2019

	August 1, 2020 (13 weeks)	August 3, 2019 (13 weeks)	August 1, 2020 (26 weeks)	August 3, 2019 (26 weeks)
Sales	$ 38,214	$ 61,683	$ 68,163	$ 116,035
Cost of goods sold	17,324	30,674	30,840	56,515
Gross profit	20,890	31,009	37,323	59,520
Selling, general and administrative expenses	21,385	40,002	49,191	78,166
Gain from deconsolidation of RTS USA Corp.	–	–	4,774	–
Loss before interest expense and income taxes recovery	(495)	(8,993)	(7,094)	(18,646)
Interest expense	2,790	3,887	6,537	7,446
Loss before income taxes	(3,285)	(12,880)	(13,631)	(26,092)
Income taxes recovery	(1,465)	(3,227)	(4,026)	(6,671)
Net loss	$ (1,820)	$ (9,653)	$ (9,605)	$ (19,421)
Basic loss per share	$ (0.04)	$ (0.23)	$ (0.23)	$ (0.46)
Diluted loss per share	$ (0.04)	$ (0.23)	$ (0.23)	$ (0.46)

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Comprehensive Income (Loss)
(In thousands of Canadian dollars)
(Unaudited)

For the 13 and 26 week periods ended August 1, 2020 and August 3, 2019

	August 1, 2020 (13 weeks)	August 3, 2019 (13 weeks)	August 1, 2020 (26 weeks)	August 3, 2019 (26 weeks)
Net loss	$ (1,820)	$ (9,653)	$ (9,605)	$ (19,421)
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	(2,181)	(852)	1,234	510
Cost of hedging excluded from cash flow hedges	7	152	(29)	238
Tax impact of cash flow hedges	580	187	(321)	(199)
Total other comprehensive income (loss)	(1,594)	(513)	884	549
Total comprehensive loss	$ (3,414)	$ (10,166)	$ (8,721)	$ (18,872)

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity
(In thousands of Canadian dollars)
(Unaudited)

For the 26 week periods ended August 1, 2020 and August 3, 2019

August 1, 2020 (26 weeks)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, February 1, 2020	$ 196,903	$ 3,407	$ (49,688)	$ (116)	$ 150,506
Net loss	–	–	(9,605)	–	(9,605)
Net gain from change in fair value of cash flow hedges, net of income taxes	–	–	–	884	884
Transfer of realized gain on cash flow hedges to inventories, net of income taxes	–	–	–	(554)	(554)
Share-based compensation	–	331	–	–	331
Issuance of shares	430	(430)	–	–	–
Balance, August 1, 2020	$ 197,333	$ 3,308	$ (59,293)	$ 214	$ 141,562

August 3, 2019 (26 weeks)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, February 2, 2019	$ 196,853	$ 3,975	$ 13,608	$ 268	$ 214,704
Adjustment on adoption of IFRS 16	–	–	(1,267)	–	(1,267)
Balance, February 3, 2019	$ 196,853	$ 3,975	$ 12,341	$ 268	$ 213,437
Net loss	–	–	(19,421)	–	(19,421)
Net gain from change in fair value of cash flow hedges, net of income taxes	–	–	–	549	549
Transfer of realized gain on cash flow hedges to inventories, net of income taxes	–	–	–	(669)	(669)
Share-based compensation	–	995	–	–	995
Issuance of shares	50	(50)	–	–	–
Balance, August 3, 2019	$ 196,903	$ 4,920	$ (7,080)	$ 148	$ 194,891

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Cash Flows
(In thousands of Canadian dollars)
(Unaudited)

For the 26 week periods ended August 1, 2020 and August 3, 2019

	August 1, 2020 (26 weeks)	August 3, 2019 (26 weeks)
Cash provided by (used in):		
Operating activities:		
Net loss	$ (9,605)	$ (19,421)
Items not involving cash:		
Depreciation and amortization	16,758	18,770
Share-based compensation expense	331	995
Gain from deconsolidation of RTS USA Corp.	(4,774)	–
Unrealized gains on forward contracts	(25)	–
Gain on lease modification	(145)	–
Interest expense	6,537	7,446
Income taxes recovery	(4,026)	(6,671)
Rent concessions	(712)	–
Interest paid	(2,446)	(2,659)
Payment of interest on lease liabilities	(3,743)	(4,475)
Taxes refunded (paid)	3,731	(2,166)
Change in non-cash operating working capital:		
Accounts receivable	(3,250)	(4,747)
Inventories	(20,699)	(4,458)
Prepaid expenses	3,265	1,873
Accounts payable and accrued liabilities	23,836	580
Deferred revenue	(630)	(839)
	4,403	(15,772)
Financing activities:		
Issuance of long-term debt	22,000	45,000
Long-term debt financing costs	(148)	(163)
Repayment of long-term debt	(2,492)	(2,492)
Payment of principal on lease liabilities, net of tenant allowance	(6,738)	(10,381)
	12,622	31,964
Investing activities:		
Additions to fixed assets	(2,289)	(15,879)
Deconsolidation of RTS USA Corp.	(541)	–
	(2,830)	(15,879)
Increase in cash	14,195	313
Cash and bank indebtedness, beginning of period	(6,277)	(10,418)
Cash and bank indebtedness, end of period	$ 7,918	$ (10,105)

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FOR FURTHER INFORMATION PLEASE CONTACT:

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