Roots Reports Fiscal 2020 Third Quarter Results

Company delivers 40% increase in eCommerce sales and 80% improvement in Adjusted EBITDA

TORONTO, December 9, 2020 – Roots ("Roots," "Roots Canada" or the "Company") (TSX: ROOT), a premium outdoor-lifestyle brand, today announced its financial results for its third quarter ended October 31, 2020 ("Q3 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 Q3 2020 financial results continue to reflect impacts of the COVID-19 pandemic, including the ongoing operation of its corporate retail stores with reduced hours and strict social distancing measures in place.

Third Quarter Fiscal 2020 Highlights

- Total sales of $72.9 million, compared to $86.4 million in the third quarter of fiscal 2019 ("Q3 2019")
  - Direct-to-Consumer ("DTC") sales of $63.4 million, compared to $73.9 million in Q3 2019
- Gross margin of 59.7%, compared to 54.9% in Q3 2019
  - DTC Gross Margin of 63.8%, up 490 basis points from 58.9% in Q3 2019
- Selling, general and administrative expenses of $26.6 million, down from $40.7 million in Q3 2019
- Adjusted EBITDA of $19.0 million, an 80% increase from $10.6 million in Q3 2019
  - Excluding rent abatements and the benefits of CEWS, Adjusted EBITDA was $11.3 million, a 7.0% increase over Q3 2019
- Net income per share of $0.25, improved from $0.05 per Share in Q3 2019, and Adjusted Net Income per Share of $0.27, improved from $0.10 per Share in Q3 2019
- Ended the quarter with 113 corporate-retail stores in Canada and two in the United States
- Ended the quarter with 116 partner-operated stores in Taiwan, 28 in China and two in Hong Kong

"We are pleased with the recovery our business demonstrated in the third quarter," said Meghan Roach, Chief Executive Officer, Roots. "Our comfortable and high-quality products have an effortless style that has continued to resonate well with consumers seeking versatile options for today's new reality of work and life. While store traffic remained below pre-pandemic levels in the third quarter, customers returned to our reopened stores with a strong intent to purchase, and our eCommerce sales were strong. Online sales were up more than 40% compared to the third quarter last year, with year-over-year growth reaching as high as 150% in non-promotional periods. In addition, our disciplined approach towards promotional activity, focus on cost controls, and operating efficiencies at the distribution centre were key factors in our year-over-year bottom-line improvements."

"We entered the fourth quarter with new government restrictions placing even tighter limitations on retail store operations in important markets across Canada. As Q4 generally represents our largest quarter from a profitability and sales perspective, these restrictions may negatively impact the momentum we saw leading into this period. However, we continue to believe customers will seek out trusted brands, like Roots, for their holiday shopping. We have a compelling product portfolio, and our strong omnichannel capabilities give our customers the flexibility to shop with us in the way that best suits their needs ."

Summary of Third Quarter Fiscal 2020 Results

Sales
Total Q3 2020 sales were $72.9 million, down 15.5% from total sales of $86.4 million in Q3 2019. Q3 2020 DTC sales (corporate retail store and eCommerce sales) were $63.4 million, down from $73.9 million in Q3 2019. This was predominantly due to a decrease in store traffic as a result of COVID-19 impacts, including reduced store operating hours and strict social distancing measures, which were partially offset by eCommerce sales that grew over 40% 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 Q3 2020 were $9.6 million, down from $12.4 million in Q3 2019, primarily as a result of COVID-19-related declines.

Gross Profit
Total gross profit for Q3 2020 was $43.6 million, down from $47.4 million in Q3 2019, reflecting the negative overall sales impact of COVID-19. Q3 2020 DTC gross profit was $40.4 million, down from $43.5 million in Q3 2019, and Partners and Other gross profit decreased to $3.1 million in Q3 2020, from $3.8 million in Q3 2019.

Q3 2020 DTC Gross Margin was 63.8%, up from 58.9% in Q3 2019. The 490-basis point improvement was predominantly a result of the Company's strategic decision to decrease promotional breadth and depth year-over-year, which, while likely placing some downward pressure on sales in the short term, is expected to be beneficial to the brand and profitability of the business over the long term. In addition, the Company generated year-over-year operating and cost efficiencies at its distribution centre and benefited from government wage subsidies, which were offset, in part, by the negative impact of foreign exchange headwinds.

Selling, general and administrative expenses ("SG&A")
SG&A for Q3 2020 was $26.6 million, down from $40.7 million in Q3 2019. The year-over-year decrease predominantly reflects $8.9 million in savings driven by the Company's efforts to reduce costs across all areas of the business as a result of COVID-19, of which $4.2 million was rent savings (of the total $4.5 million in rent savings the Company obtained in the quarter). The Company also realized savings related to lower overall store wages as a result of reduced store operating hours and labour managed in accordance with store sales, as well as the management of overall corporate costs. In addition, SG&A reflects $2.7 million in government wage subsidies (of the total $3.6 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 Q3 2020 was $19.0 million, an 80% increase from $10.6 million in Q3 2019. Q3 2019 includes ($1.7) million related to the Company's now-closed U.S. stores. Excluding rent abatements and the benefits of CEWS, Q3 2020 Adjusted EBITDA was $11.3 million, a 7.0% year-over-year increase, despite total sales declines of 15.5%.

Q3 2020 net income improved to $10.3 million, or $0.25 per share, from net income of $2.0 million, or $0.05 per share, in Q3 2019. Adjusted Net Income (which excludes the impact of IFRS 16) for Q3 2020 improved to $11.2 million, or $0.27 per Share, from $4.1 million, or $0.10 per Share, in Q3 2019.

During the quarter, Roots saw increased demand for its core favourites and strong sell-through of new products as well as the release of its limited-edition collaboration with OVO. The Company opened four pop-ups in Q3 2020, capitalizing on increasingly available short-term rent opportunities to showcase its extensive children's offering and to test new locations. Roots also continued to stay closely connected to its community. Within the quarter, the Company embarked on a Canada-wide initiative with Brands For Canada, donating more than $1.0 million in products to support charitable organizations across the country. Roots also continued to leverage the success of its non-medical mask sales to make donations to local charities, and partnered with the Holland Bloorview Kids Rehabilitation Hospital in support of the Dear Everybody campaign, an initiative focused on increasing the inclusivity and diversity of media campaigns by including people with disabilities.

COVID-19 Business Update

In response to the COVID-19 pandemic, Roots continues to prioritize the health and safety of its customers and employees. In accordance with current provincial guidelines, Roots has shifted its store operations to curbside pick-up and eCommerce fulfillment only for Manitoba, effective November 12, 2020, and the Toronto and Peel regions in Ontario, effective November 23, 2020. The changes in operation for these 23 Roots corporate-owned stores and two pop-up locations will be in place for at least four weeks. The Company will continue to follow all local government and health organization guidelines. Ongoing social distancing restrictions may limit the number of customers the Company can serve in-store during peak selling periods, and may also limit the volume of goods Roots is able to manufacture at its leather factory and fulfill through its distribution centre.

Conference Call and Webcast Information

Roots will hold a conference call to discuss the Company's fiscal 2020 third quarter results on December 9, 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: 2079108. Please dial in 15 minutes prior to the call to secure a line. The conference call will be archived for replay until December 16, 2020, at midnight and can be accessed by dialing 416-849-0833 or 1-855-859-2056 and entering replay passcode: 2079108.

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 Third Quarter ended October 31, 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 October 31, 2020, we operated 113 corporate-retail stores in Canada, two corporate-retail stores in the United States, 116 partner-operated stores in Taiwan, 28 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 (Decline) 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 periods of store closures, phased re-openings and retail store operating limitations, the Company does not believe that Comparable Sales Growth (Decline) is a representative metric of fiscal 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 October 31, 2020	As at February 1, 2020
Assets		
Current assets:		
Cash	$ 11,293	$ 949
Accounts receivable	7,319	7,158
Inventories	62,513	40,152
Prepaid expenses	2,553	5,418
Derivative assets	52	–
Total current assets	83,730	53,677
Non-current assets:		
Loan receivable	585	585
Lease receivable	1,270	1,511
Fixed assets	50,600	55,694
Right-of-use assets	86,196	128,322
Intangible assets	191,352	193,079
Goodwill	7,906	7,906
Total non-current assets	337,909	387,097
Total assets	$ 421,639	$ 440,774
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ –	$ 7,226
Accounts payable and accrued liabilities	38,091	20,252
Deferred revenue	4,812	6,011
Income taxes payable	3,044	2,008
Current portion of lease liabilities	22,232	26,569
Current portion of long-term debt	4,984	4,984
Derivative obligations	–	158
Total current liabilities	73,163	67,208
Non-current liabilities:		
Deferred tax liabilities	16,535	13,942
Long-term portion of lease liabilities	82,855	124,590
Long-term debt	97,167	84,528
Total non-current liabilities	196,557	223,060
Total liabilities	269,720	290,268
Shareholders' equity:		
Share capital	197,333	196,903
Contributed surplus	3,506	3,407
Accumulated other comprehensive income (loss)	32	(116)
Retained earnings (deficit)	(48,952)	(49,688)
Total shareholders' equity	151,919	150,506
Total liabilities and shareholders' equity	$ 421,639	$ 440,774

ROOTS CORPORATION

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

For the 13 and 39 week periods ended October 31, 2020 and November 2, 2019

	October 31, 2020 (13 weeks)	November 2, 2019 (13 weeks)	October 31, 2020 (39 weeks)	November 2, 2019 (39 weeks)
Sales	$ 72,946	$ 86,377	$ 141,109	$ 202,412
Cost of goods sold	29,384	38,998	60,224	95,513
Gross profit	43,562	47,379	80,885	106,899
Selling, general and administrative expenses	26,607	40,697	75,798	118,863
Gain from deconsolidation of RTS USA Corp.	–	–	4,774	–
Income (loss) before interest expense and income taxes expense (recovery)	16,955	6,682	9,861	(11,964)
Interest expense	2,783	4,159	9,320	11,605
Income (loss) before income taxes	14,172	2,523	541	(23,569)
Income taxes expense (recovery)	3,831	554	(195)	(6,117)
Net income (loss)	$ 10,341	$ 1,969	$ 736	$ (17,452)
Basic earnings (loss) per share	$ 0.25	$ 0.05	$ 0.02	$ (0.41)
Diluted earnings (loss) per share	$ 0.24	$ 0.05	$ 0.02	$ (0.41)

ROOTS CORPORATION

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

For the 13 and 39 week periods ended October 31, 2020 and November 2, 2019

	October 31, 2020 (13 weeks)	November 2, 2019 (13 weeks)	October 31, 2020 (39 weeks)	November 2, 2019 (39 weeks)
Net income (loss)	$ 10,341	$ 1,969	$ 736	$ (17,452)
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	(374)	(398)	860	112
Cost of hedging excluded from cash flow hedges	2	121	(27)	359
Tax impact of cash flow hedges	99	74	(222)	(125)
Total other comprehensive income (loss)	(273)	(203)	611	346
Total comprehensive income (loss)	$ 10,068	$ 1,766	$ 1,347	$ (17,106)

ROOTS CORPORATION

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

For the 39 week periods ended October 31, 2020 and November 2, 2019

October 31, 2020 (39 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 income	–	–	736	–	736
Net gain from change in fair value of cash flow hedges, net of income taxes	–	–	–	611	611
Transfer of realized gain on cash flow hedges to inventories, net of income taxes	–	–	–	(463)	(463)
Share-based compensation	–	529	–	–	529
Issuance of shares	430	(430)	–	–	–
Balance, October 31, 2020	$ 197,333	$ 3,506	$ (48,952)	$ 32	$ 151,919

November 2, 2019 (39 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	–	–	(17,452)	–	(17,452)
Net gain from change in fair value of cash flow hedges, net of income taxes	–	–	–	346	346
Transfer of realized gain on cash flow hedges to inventories, net of income taxes	–	–	–	(970)	(970)
Share-based compensation	–	527	–	–	527
Issuance of shares	50	(50)	–	–	–
Balance, November 2, 2019	$ 196,903	$ 4,452	$ (5,111)	$ (356)	$ 195,888

ROOTS CORPORATION

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

For the 39 week periods ended October 31, 2020 and November 2, 2019

	October 31, 2020 (39 weeks)	November 2, 2019 (39 weeks)
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ 736	$ (17,452)
Items not involving cash:		
Depreciation and amortization	24,664	29,100
Share-based compensation expense	529	527
Gain from deconsolidation of RTS USA Corp.	(4,774)	–
Unrealized gains on forward contracts	(8)	–
Gain on lease modification	(309)	(457)
Interest expense	9,320	11,605
Income taxes recovery	(195)	(6,117)
Rent concessions	(3112)	–
Interest paid	(3,537)	(4,345)
Payment of interest on lease liabilities	(5,258)	(6,787)
Taxes refunded (paid)	3,769	(2,159)
Change in non-cash operating working capital:		
Accounts receivable	(161)	(1,085)
Inventories	(24,652)	(20,840)
Prepaid expenses	2,865	1,983
Accounts payable and accrued liabilities	18,406	12,337
Deferred revenue	(1,199)	(1,100)
	17,084	(4,790)
Financing activities:		
Issuance of long-term debt	16,000	50,000
Long-term debt financing costs	(148)	(163)
Repayment of long-term debt	(3,737)	(3,737)
Payment of principal on lease liabilities, net of tenant allowance	(8,162)	(12,775)
	3,953	33,325
Investing activities:		
Additions to fixed assets	(2,926)	(19,473)
Deconsolidation of RTS USA Corp.	(541)	–
	(3,467)	(19,473)
Increase in cash	17,570	9,062
Cash and bank indebtedness, beginning of period	(6,277)	(10,418)
Cash and bank indebtedness, end of period	$ 11,293	$ (1,356)

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FOR FURTHER INFORMATION PLEASE CONTACT:

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