Roots Reports Increased Sales, Expansion in Gross Margin and Increased Profitability with Fiscal 2021 Third Quarter Results

Successful execution of strategy fuels 630 basis point increase in DTC gross margin versus pre-COVID third quarter 2019

Earnings per share of $0.25, equal to the third quarter 2020 and up from $0.05 per share in third Quarter 2019

TORONTO, December 14, 2021 – 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 30, 2021 ("Q3 2021"). 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". The Company has presented certain metrics in this press release as compared to its results during the third quarter ended November 2, 2019 ("Q3 2019") and to its third quarter ended October 31, 2020 ("Q3 2020").

Fiscal 2021 Third Quarter Financial and Business Highlights

- Total sales of $76.3 million, up 4.6% from $72.9 million in Q3 2020, which included double-digit growth during non-promotional periods in the Direct-to-Consumer ("DTC") segment. This comes despite a significant reduction in promotional days, and inventory delays resulting in supply chain disruptions.
- Drove substantial expansion in DTC gross margin despite the negative impact of increased supply chain costs. DTC gross margin was 65.2%, up 140 basis points ("bps") and 630 bps as compared Q3 2020 and Q3 2019, respectively.
- Reduced promotional days to four in Q3 2021, as compared to 49 in Q3 2020 and 81 in Q3 2019.
- Amplified the brand with exciting new collaborations, including Révolutionnaire by Roots and the launch of a custom award jacket designed by Japanese artist Mr. for the Weeknd, in celebration of the 10th anniversary of his "Thursday" album.
- Increased Adjusted EBITDA to $19.2 million in Q3 2021 as compared to $19.0 million in Q3 2020 and $10.6 million in Q3 2019, despite a decline in temporary rent abatements and government subsidies. Excluding these temporary benefits, Adjusted EBITDA was $16.1 million in Q3 2021, compared to $11.7 million in Q3 2020 and $10.6 million in Q3 2019.
- Strengthened the balance sheet through seven consecutive quarters of year-over-year debt reduction.
- Extended our environmental, social and governance (ESG) commitment through the following:
    - The launch of the ONE Collection, a collection offered in gender-free fits, sustainable materials, and extended sizes;
    - Membership in the Textile Exchange, a global nonprofit that manages and promotes industry standards focused on sustainable fibres and materials , such as organic cotton and recycled polyester; and
    - joining the Leather Working Group, an international organization made up of stakeholders across the leather supply chain, working to promote environmental best practices within leather manufacturing and related industries.

"We are pleased to report higher gross margin and adjusted EBITDA compared to our fiscal 2019 and 2020 third quarters. These results reflect the successful execution of our strategy to date with consumers embracing our brand and product offering during the quarter," said Meghan Roach, President and Chief Executive Officer, Roots. "Our concerted efforts over the last seven quarters to reduce discounts resulted in promotional days declining from 81 in Q3 2019 and 49 in Q3 2020 to four in Q3 2021. Combined with our elevated assortments and brand-building marketing, these actions significantly improved our key selling metrics, and we saw double-digit growth in DTC sales during non-promotional periods. We were also pleased to achieve these results in light of the industry-wide supply chain disruptions, which limited our ability to showcase new products and to merchandise our full offerings online and in-store."

"We believe we are well-positioned to capitalize on the fourth quarter holiday season and pleased with the performance of our new products." continued Ms. Roach. "We are prepared to meet consumer demand with compelling gifts and healthy inventory levels in-store and online."

Summary of Fiscal 2021 Third Quarter Results

Sales
Total Q3 2021 sales were $76.3 million, up 4.6% from total sales of $72.9 million in Q3 2020. DTC sales (corporate retail store and eCommerce sales) were $63.4 million in Q3 2021, in line with Q3 2020. The DTC segment experienced strong traffic growth in the corporate retail stores, despite the Company's continued focus on promotional discipline, which reduced the number of promotional days in Q3 2021 to four, compared to 49 in Q3 2020. eCommerce sales continued to demonstrate growth over pre-pandemic levels even as the increase to in-store activity resulted in moderated demand online. Inventory delays partially dampened the growth in the DTC segment due to supply chain challenges.

Roots Q3 2021 Partners and Other sales (wholesale Roots-branded products, royalties on partner retail sales, licensing to select manufacturing partners and the sale of certain custom products) were $12.9 million, up 34.1% from $9.6 million in Q3 2020. The year-over-year increase reflects strength in the Company's Asia business due to higher volumes, modifications to the financial terms of the agreement with the Company's international operating partner, and strong growth in the royalty revenue earned from the Company's third-party licensees, partially offset by the impact of unfavorable foreign exchange.

Gross Profit
Q3 2021 total gross profit was $46.4 million compared to $43.6 million in Q3 2020 and $47.4 million in Q3 2019. The increase in gross profit was driven by DTC gross margin expansion and an increase in sales within our Partners and Other Segment. Q3 2021 DTC gross margin was 65.2%, up from 63.8% in Q3 2020 and 58.9% in Q3 2019. This increase in gross margin primarily reflects the benefits of the Company's continued promotional discipline through a reduction in depth and breadth of promotions in its DTC segment, as well as the positive impact of foreign exchange. These factors were partially offset by higher freight costs associated with supply chain challenges which reduced DTC gross margin by 160 bps, as compared to Q3 2020. DTC gross profit also includes the benefit of $0.5 million of government subsidies in both Q3 2021 and Q3 2020.

Selling, General and Administrative Expenses ("SG&A")
Q3 2021 SG&A was $29.4 million, up from $26.6 million in Q3 2020. The increase in SG&A expenses was primarily driven by a decrease in temporary occupancy-related abatements, where $1.8 million was recorded in Q3 2021 as compared to $4.1 million in Q3 2020, and a decrease in government subsidies year-over-year with the Company benefitting from $0.7 million in Q3 2021, compared to $2.7 million in Q3 2020. Excluding these one-time impacts, SG&A expenses declined by $1.5 million due to operating efficiencies in the DTC segment.

Adjusted EBITDA, Net Income (Loss) & Adjusted Net Income (Loss)
Adjusted EBITDA (which excludes the impact of IFRS 16 – Leases ("IFRS 16") and includes rent expense) was $19.2 million for Q3 2021, up slightly from $19.0 million in Q3 2020 and increased $8.6 million from $10.6 million in Q3 2019, as a result of the above factors. Excluding temporary rent abatements and government subsidies, Adjusted EBITDA would have been $16.1 million in Q3 2021, compared to $11.7 million in Q3 2020 and $10.6 million in Q3 2019.

Q3 2021 net income was $10.8 million, or $0.25 per share, compared to net income of $10.3 million, or $0.25 per share, in Q3 2020 and $2.0 million, or $0.05 per share in Q3 2019.

Adjusted Net Income (which excludes the impact of IFRS 16 and includes rent expense) for Q3 2021 was $11.7 million, or $0.28 per share, an improvement from $11.2 million, or $0.27 per share, in Q3 2020 and $4.1 million or $0.10 per share in Q3 2019.

COVID-19 Business Update
During Q3 2021, the Company reopened its last remaining corporate retail store that was temporarily closed as a result of government mandated COVID-19 restrictions and all of its other corporate retail stores remained open for the entire quarter, consistent with Q3 2020. Conversely, during Q3 2021, several of the Company's stores operated by its international operating partner experienced temporary store closures and/or restrictions and reduced operating hours. By the end of Q3 2021, the Company's international operating partner had reopened all stores in the previously impacted regions.

As a result of global challenges related to the ongoing COVID-19 pandemic, the retail industry is facing industry-wide supply chain disruptions. To best mitigate the impact on its business, such as extended lead times and product shortages, the Company is managing its inventory and promotions, leveraging its pack-and-hold inventory, and using air freight for key seasonal programs resulting in higher freight costs.

Normal Course Issuer Bid
In a separate press release issued today, the Company announced its intention to commence a normal course issuer bid for its Common Shares through the facilities of the Toronto Stock Exchange (or other alternative Canadian trading systems) to repurchase for cancellation up to 2,172,928 of its Common Shares, representing approximately 10.0% of the Company's "public float", during the 12-month period commencing December 16, 2021 and ending December 15, 2022.

Conference Call and Webcast Information
Roots will hold a conference call to discuss the Company's fiscal 2021 third quarter results on December 14, 2021, at 8:00 a.m. ET. All interested parties can join the call by dialing 416-764-8659 or 1-888-664-6392 and using conference ID: 63111360. Please dial in 15 minutes prior to the call to secure a line. The conference call will be archived for replay until December 21, 2021, at midnight, and can be accessed by dialing 416-764-8677 or 1-888-390-0541 and entering replay passcode: 111360 #.

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 fiscal quarter ended October 30, 2021, on the Company's investor website at https://investors.roots.com and SEDAR at www.SEDAR.com. Please also see the Company's Consolidated Financial Statements and related Management's Discussion and Analysis for the fiscal quarter ended November 2, 2019 on SEDAR at www.SEDAR.com for additional information relating to the Company's pre-COVID Q3 2019 financial results.

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. We operate more than 100 retail stores across Canada, two in the United States, and ship to more than 60 countries worldwide via roots.com, our eCommerce platform. We also have more than 100 partner-operated stores and sell our products through leading third-party retail sites in Asia. 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. Commencing in the first quarter of fiscal 2020, the Company's DTC segment was significantly impacted by COVID-19. 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 performance in affected periods. Management will continue to monitor and evaluate the effects of COVID-19 and will resume the evaluation of Comparable Sales Growth (Decline) when year-over-year results are no longer significantly impacted by COVID-19.

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 Adjusted DTC Gross Profit, Adjusted 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 for Q3 2019, Q3 2020 and Q3 2021 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. Such reconciliations can also be found in this press release below, under the heading "Selected Consolidated Financial Information – Reconciliation of Net Income (Loss) to EBITDA, Adjusted EBITDA and Adjusted Net Income (Loss)".

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 is 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.

Selected Consolidated Financial Information

In thousands of Canadian dollars except per share amounts, unless otherwise noted
Unaudited

Interim Condensed Consolidated Statement of Financial Position

	October 30, 2021	January 30, 2021
Assets		
Current assets:		
Cash	$ 6,815	$ 9,166
Accounts receivable	9,985	7,165
Inventories	65,950	42,401
Prepaid expenses	3,129	3,137
Total current assets	85,879	61,869
Non-current assets:		
Loan receivable	608	608
Lease receivable	932	1,187
Fixed assets	44,291	47,981
Right-of-use assets	69,433	79,995
Intangible assets	189,055	190,777
Goodwill	7,906	7,906
Total non-current assets	312,225	328,454
Total assets	$ 398,104	$ 390,323
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 29,734	$ 25,850
Deferred revenue	4,914	5,759
Income taxes payable	4,942	5,955
Current portion of lease liabilities	21,922	22,197
Current portion of long-term debt	4,984	4,984
Derivative obligations	184	418
Total current liabilities	66,680	65,163
Non-current liabilities:		
Deferred tax liabilities	17,191	15,891
Long-term portion of lease liabilities	68,155	78,989
Long-term debt	76,401	66,100
Total non-current liabilities	161,747	160,980
Total liabilities	228,427	226,143
Shareholders' equity:		
Share capital	197,598	197,333
Contributed surplus	4,085	3,682
Accumulated other comprehensive income (loss)	(135)	(227)
Retained earnings (deficit)	(31,871)	(36,608)
Total shareholders' equity	169,677	164,180
Total liabilities and shareholders' equity	$ 398,104	$ 390,323

Interim Condensed Consolidated Statement of Net Income (loss)

For the 13 and 39 week periods ended October 30, 2021, October 31, 2020, and November 2, 2019

	October 30, 2021 (13 weeks)	October 31, 2020 (13 weeks)	November 2, 2019 (13 weeks)	October 30, 2021 (39 weeks)	October 31, 2020 (39 weeks)	November 2, 2019 (39 weeks)
Sales	$ 76,291	$ 72,946	$ 86,377	$ 152,540	$ 141,109	$ 202,412
Cost of goods sold	29,870	29,384	38,998	62,035	60,224	95,513
Gross profit	46,421	43,562	47,379	90,505	80,885	106,899
Selling, general and administrative expenses	29,436	26,607	40,697	77,162	75,798	118,863
Gain from deconsolidation of RTS USA Corp.	–	–	–	–	4,774	–
Income (loss) before interest expense and income taxes expense (recovery)	16,985	16,955	6,682	13,343	9,861	(11,964)
Interest expense	2,250	2,783	4,159	6,787	9,320	11,605
Income (loss) before income taxes	14,735	14,172	2,523	6,556	541	(23,569)
Income taxes expense (recovery)	3,969	3,831	554	1,904	(195)	(6,117)
Net Income (loss)	$ 10,766	$ 10,341	$ 1,969	$ 4,652	$ 736	$ (17,452)
Basic earnings (loss) per share	$ 0.25	$ 0.25	$ 0.05	$ 0.11	$ 0.02	$ (0.41)
Diluted earnings (loss) per share	$ 0.25	$ 0.24	$ 0.05	$ 0.11	$ 0.02	$ (0.41)

Interim Condensed Consolidated Statement of Comprehensive Income

For the 13 and 39 week periods ended October 30, 2021 and October 31, 2020

	October 30, 2021 (13 weeks)	October 31, 2020 (13 weeks)	October 30, 2021 (39 weeks)	October 31, 2020 (39 weeks)
Net income	$ 10,766	$ 10,341	$ 4,652	$ 736
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	(77)	(374)	(489)	860
Cost of hedging excluded from cash flow hedges	8	2	3	(27)
Tax impact of cash flow hedges	19	99	129	(222)
Total other comprehensive income (loss)	(50)	(273)	(357)	611
Total comprehensive income	$ 10,716	$ 10,068	$ 4,295	$ 1,347

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity

For the 39 week periods ended October 30, 2021 and October 31, 2020

October 30, 2021 (39 weeks)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, January 30, 2021	$ 197,333	$ 3,682	$ (36,608)	$ (227)	$ 164,180
Adjustment on amendment of IFRS 16	–	–	85	–	85
Balance, January 31, 2021	197,333	3,682	(36,523)	(227)	164,265
Net income	–	–	4,652	–	4,652
Net loss from change in fair value of cash flow hedges, net of income taxes	–	–	–	(357)	(357)
Transfer of realized gain on cash flow hedges to inventories, net of income taxes	–	–	–	449	449
Share-based compensation	–	633	–	–	633
Issuance of Shares	265	(230)	–	–	35
Balance, October 30, 2021	$ 197,598	$ 4,085	$ (31,871)	$ (135)	$ 169,677

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

Interim Condensed Consolidated Statement of Cash Flows

For the 39 week periods ended October 30, 2021 and October 31, 2020

	October 30, 2021 (39 weeks)	October 31, 2020 (39 weeks)
Cash generated from (used in):		
Operating activities:		
Net income	$ 4,652	$ 736
Items not involving cash:		
Depreciation and amortization	22,603	24,664
Share-based compensation expense	633	529
Gain from deconsolidation of RTS USA Corp.	–	(4,774)
Unrealized gain on de-designated forward contracts	–	(8)
Gain on lease modification	(347)	(309)
Interest expense	6,787	9,320
Income taxes expense (recovery)	1,904	(195)
Rent concessions	(2,470)	(3,112)
Settlement of de-designated forward contracts	(109)	–
Interest paid	(2,208)	(3,537)
Payment of interest on lease liabilities	(4,108)	(5,258)
Taxes refunded (paid)	(1,683)	3,769
Change in non-cash operating working capital:		
Accounts receivable	(2,820)	(161)
Inventories	(23,549)	(24,652)
Prepaid expenses	8	2,865
Accounts payable and accrued liabilities	3,884	18,406
Deferred revenue	(845)	(1,199)
	2,332	17,084
Financing activities:		
Issuance of long-term debt	14,500	16,000
Long-term debt financing costs	(931)	(148)
Repayment of long-term debt	(3,738)	(3,737)
Payment of principal on lease liabilities, net of tenant allowance	(11,308)	(8,162)
Proceeds from issuance of Shares	35	–
	(1,442)	3,953
Investing activities:		
Additions to fixed assets	(3,241)	(2,926)
Deconsolidation of RTS USA Corp.	–	(541)
	(3,241)	(3,467)
Increase (decrease) in cash	(2,351)	17,570
Cash and bank indebtedness, beginning of period	9,166	(6,277)
Cash and bank indebtedness, end of period	$ 6,815	$ 11,293

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

For the 13 and 39 week periods ended October 30, 2021, October 31, 2020, and November 2, 2019

	Q3 2021	Q3 2020	Q3 2019	YTD 2021	YTD 2020	YTD 2019
Net income (loss)	**10,766**	**10,341**	**1,969**	**4,652**	**736**	**(17,452)**
Add the impact of:						
Interest expense	2,250	2,783	4,159	6,787	9,320	11,605
Income taxes expense (recovery)	3,969	3,831	554	1,904	(195)	(6,117)
Depreciation and amortization	7,446	7,906	10,330	22,603	24,664	29,100
EBITDA	**24,431**	**24,861**	**17,012**	**35,946**	**34,525**	**17,136**
Adjust for the impact of:						
COGS: DC Relocation Project	–	–	321	–	45	543
COGS: P&O Duty Reimbursement	–	–	175	–	–	175
SG&A: Rent expense excluded from net income as a result of IFRS 16	(5,780)	(6,160)	(7,930)	(17,736)	(19,748)	(21,906)
SG&A: Gain from the deconsolidation of RTS USA Corp.	–	–	–	–	(4,774)	–
SG&A: Chapter 7 filing costs	–	26	–	–	1,240	–
SG&A: Purchase accounting adjustments	26	42	286	66	127	524
SG&A: Stock option expense	265	198	(468)	633	529	527
SG&A: DC Relocation Project	–	–	341	–	–	1,648
SG&A: Changes in key personnel	56	46	651	237	712	1,174
SG&A: Other non-recurring items	160	–	176	372	1	194
Adjusted EBITDA	**19,158**	**19,013**	**10,564**	**19,518**	**12,657**	**15**

	Q3 2021	Q3 2020	Q3 2019	YTD 2021	YTD 2020	YTD 2019
Net income (loss)	**10,766**	**10,341**	**1,969**	**4,652**	**736**	**(17,452)**
Reverse the impact of IFRS 16:						
Rent expense excluded from net income	(5,780)	(6,160)	(7,930)	(17,736)	(19,748)	(21,906)
Depreciation on ROU assets	4,604	4,869	6,306	13,855	15,427	18,477
Interest on lease liabilities	1,314	1,515	2,312	4,108	5,258	6,787
Deferred tax impact	(36)	(61)	(183)	(60)	(230)	(895)
Total IFRS 16 impacts reversed	102	163	505	167	707	2,463
Add the impact of:						
COGS: DC Relocation Project	–	–	321	–	45	543
COGS: P&O Duty Reimbursement	–	–	175	–	–	175
SG&A: Gain from the deconsolidation of RTS USA Corp.	–	–	–	–	(4,774)	–
SG&A: Chapter 7 filing costs	–	26	–	–	1,240	–
SG&A: Purchase accounting adjustments	26	42	286	66	127	524
SG&A: Stock option expense	265	198	(468)	633	529	527
SG&A: DC Relocation Project	–	–	343	–	–	1,646
SG&A: Changes in key personnel	56	46	651	237	712	1,174
SG&A: Other non-recurring items	160	–	176	372	1	198
SG&A: Amortization of intangible assets acquired by Searchlight	575	577	949	1,722	1,727	2,847
Total adjustments	1,082	889	2,433	3,030	(393)	7,634
Tax effect of adjustments	(216)	(184)	(773)	(634)	(811)	(1,894)
Adjusted Net Income (Loss)	**11,734**	**11,209**	**4,134**	**7,215**	**239**	**(9,249)**

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