



ROOTS REPORTS FIRST QUARTER 2023 RESULTS

- Sales were \$41.5 million, compared to \$43.1 million in Q1 2022
- Gross margin was 59.0% compared to 60.9% in the same period in 2022
- Net loss totaled (\$8.0) million compared to (\$5.3) million in Q1 2022
- Adjusted EBITDA amounted to (\$5.8) million compared to (\$3.2) million in Q1 2022
- Inventory level increased 28.6% year-over-year to \$50.4 million, an improvement over Q4 2022
- Repurchased 461,812 shares for \$1.4 million under the normal course issuer bid

TORONTO, June 8, 2023 – [Roots](#) (“Roots,” “Roots Canada” or the “Company”) (TSX: ROOT), a premium outdoor-lifestyle brand, today announced financial results for its first quarter ended April 29, 2023 (“Q1 2023”). 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” below.

“Our Q1 2023 results aligned with our internal projections and reflect a challenging economic environment,” indicated Meghan Roach, President and Chief Executive Officer of Roots. “Considering our historical patterns, it is worth noting that the first quarter traditionally represents less than 15% of our annual sales. Consequently, our results also include several of the strategic investments made in our business during the first half of the year that support our revenue-intensive second half.”

“We observed notable strength across most of our apparel categories in the first quarter, particularly in dresses, skirts, and activewear. While softness in demand for traditional fleece bottoms resulted in an overall year-over-year sales decline, our success in broadening our product range underscores the capacity of the brand to diversify and attract new customers. In Q1, we achieved our highest average unit revenue in the Company’s history, while maintaining gross margins above pre-pandemic levels.”

SELECTED FINANCIAL INFORMATION (in thousands of CAD\$, except per share amounts)	First quarter ended		Change
	April 29, 2023	April 30, 2022	
Total sales	41,496	43,072	(3.7%)
Direct-to-Consumer (“DTC”) sales	35,406	37,377	(5.3%)
Partners & Other (“P&O”) sales	6,090	5,695	6.9%
Gross profit	24,481	26,218	(6.6%)
Gross margin¹	59.0%	60.9%	-190 bps
Selling, General and Administrative (“SG&A”) expenses	33,006	31,306	5.4%
Subsidies and abatements²	-	134	(100%)
Net loss	(7,966)	(5,261)	(51.4%)
Net loss per share	(\$0.19)	(\$0.13)	(46.2%)
Adjusted EBITDA³	(5,848)	(3,204)	(82.5%)

¹ Gross margin is a supplementary financial measure that measures our gross profit as a percentage of sales.

² Subsidies and abatements are reported as a reduction to the related expense, either as a decrease to cost of goods sold or to SG&A expenses.

³ Adjusted EBITDA is a non-IFRS Measure. See “Non-IFRS Measures and Industry Metrics” below.

“Despite the short-term sales and profitability headwinds, we remain confident in the long-term operating fundamentals of the business,” said Leon Wu, Chief Financial Officer at Roots. “The decline in gross margins were in-line with our expectations, as we transition to sustainable materials, a strategic initiative that began in late 2022, and offered higher discounts on select seasonal inventory amidst the current competitive landscape. We continue to remain disciplined around promotions with discount rates remaining significantly below pre-pandemic levels. We anticipate the gross margin declines to gradually moderate towards the latter half of the year.”

“We have also made good progress towards right-sizing our inventory, aiming to achieve the right balance by the end of the second half of the year. By maintaining a robust balance sheet and ample liquidity, we remain well-equipped to navigate the unpredictable macro-economic conditions. Looking beyond the immediate challenges, we will continue to make prudent investments that generate sustainable growth and deliver long-term value to our shareholders.”

FIRST QUARTER OVERVIEW

Total sales decreased 3.7% to \$41.5 million in Q1 2023 from \$43.1 million in the first quarter of fiscal 2022 (“Q1 2022”). DTC sales (corporate retail store and eCommerce sales) reached \$35.4 million, down 5.3% year-over-year. The year-over-year decrease in DTC sales was primarily driven by continued economic environment headwinds and a heightened promotional environment. Sales across most of the apparel categories and silhouettes generated positive year-over-year growth, but were not sufficient to offset the sales decline in select traditional fleece bottoms styles.

P&O sales (wholesale Roots branded products, licensing to select manufacturing partners and the sale of certain custom products) amounted to \$6.1 million in Q1 2023 compared to \$5.7 million in Q1 2022. The 6.9% increase in sales was mainly due to higher sales from the Company’s international operating partner in Taiwan, increased royalties for the licensing of the Roots brand to select manufacturing partners, and a favourable foreign exchange impact on U.S. dollar sales.

Gross profit reached \$24.5 million in Q1 2023 compared to \$26.2 million in Q1 2022, representing a year-over-year decline of 6.6%. Gross margin was 59.0% in Q1 2023 compared to 60.9% in Q1 2022. The reduction in gross margin of 190 basis points (“bps”) is primarily due to higher product costs from the transition to sustainable materials, as well as heightened promotional activity, partially offset by lower freight premiums of 100 bps. Gross margin was also affected by the unfavourable foreign exchange impact on U.S. dollar purchases, offset by the release of a non-cash inventory provision.

SG&A expenses totaled \$33.0 million in Q1 2023 compared to \$31.3 million in Q1 2022. The 5.4% increase in SG&A expenses was mainly driven by higher store labour costs associated with longer operating hours, contractual increases in store rent costs, and higher corporate compensation expense.

Net loss totaled (\$8.0) million, or (\$0.19) per share, in Q1 2023, as compared to a net loss of (\$5.3) million, or (\$0.13) per share, in Q1 2022.

Adjusted EBITDA amounted to (\$5.8) million in Q1 2023 as compared to (\$3.2) million in Q1 2022.

FINANCIAL POSITION

Inventory was \$50.4 million at the end of Q1 2023, as compared to \$39.2 million at the end of Q1 2022, representing an increase of \$11.2 million, or 28.6%. The year-over-year increase in inventory was primarily driven by \$4.7 million of higher core inventory to be released for sale in the second half of 2023, under the Company's pack-and-hold strategy, \$2.9 million of higher product costs associated with the transition to sustainable materials, and an increase of \$3.6 million from higher on-hand units, which was partially due to the earlier timing of inventory receipts.

As at April 29, 2023, Roots had a solid financial position with net debt of \$41.0 million, up slightly from \$39.4 million a year earlier. The Company's leverage ratio, defined as total net debt to trailing 12-months Adjusted EBITDA, was 1.7 times at the end of first quarter. Roots also had a total amount outstanding under its credit facilities of \$56.5 million and had total liquidity of \$74.0 million, including cash and borrowing capacity available under its revolving credit facility.

NORMAL COURSE ISSUER BID

Under its Normal Course Issuer Bid ("NCIB") program, Roots repurchased 461,812 shares for a total consideration of \$1.4 million in Q1 2023. The NCIB allows the Company to repurchase for cancellation up to 2,119,667 shares during the 12-month period ending December 15, 2023. As of Q1 2023, 695,872 shares have been purchased under the current NCIB program.

CONFERENCE CALL AND WEBCAST INFORMATION

Roots will hold a conference call to review its first quarter 2023 results on June 8, 2023, 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: 03827679. Please dial in 15 minutes prior to the call to secure a line. The conference call will be archived for replay until June 15, 2023, at midnight, and can be accessed by dialing 416-764-8677 or 1-888-390-0541 and entering the replay passcode: 827679#.

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.

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 International Financial Reporting Standards as issued by the International Accounting Standards Board ("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 (loss) 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.

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. For further information regarding these non-IFRS measures, please refer to "Cautionary Note-Regarding Non-IFRS Measures and Industry Metrics" in our management's discussion and analysis for Q1 2023, which is incorporated by reference herein and is available on SEDAR at www.SEDAR.com or the Company's Investor Relations website at <https://investors.roots.com>.

The table below provides a reconciliation of net loss to EBITDA and Adjusted EBITDA for the periods presented:

CAD \$000s	Q1 2023	Q1 2022
Net loss	(7,966)	(5,261)
<i>Adjust for the impact of:</i>		
Interest expense (a)	2,269	1,985
Income taxes expense (a)	(2,828)	(1,812)
Depreciation and amortization (a)	7,537	7,185
EBITDA	(988)	2,097
<i>Adjust for the impact of:</i>		
SG&A: Rent expense excluded from net income due to IFRS 16 (a) ...	(5,699)	(5,515)
SG&A: Purchase accounting adjustments (b)	(8)	19
SG&A: Stock option expense (c)	100	200
SG&A: Changes in key personnel (d)	745	(5)
SG&A: Non-recurring legal fees (e)	2	-
Adjusted EBITDA (f)	(5,848)	(3,204)

Notes:

- (a) The impact of IFRS 16 in Q1 2023 and Q1 2022 was: (i) a decrease to SG&A expenses of \$1,105 and \$1,168, respectively, which comprised the impact of depreciation on the right-of-use (“**ROU**”) assets, net of the exclusion of rent payments from SG&A expenses, (ii) an increase in interest expense of \$1,160 and \$1,229, respectively, arising from interest expense recorded on the lease liabilities in the period, and (iii) a deferred tax impact of \$(15) and \$(16), respectively, based on tax attributes on the ROU assets and lease liabilities balances recorded.
- (b) As a result of the Acquisition, the Company recognized an intangible asset for lease arrangements in the amount of \$6,310, which when excluding the impacts of IFRS 16 *Leases*, is amortized over the life of the leases and included in SG&A expenses.
- (c) Represents non-cash share-based compensation expense in respect of our Legacy Equity Incentive Plan, Legacy Employee Option Plan, and Omnibus Equity Incentive Plan.
- (d) Represents expenses incurred in respect of the Company’s efforts to recruit for vacancies in key management positions and severance costs associated with employee separations relating to such positions.
- (e) Represents non-recurring legal costs that are outside the scope of normal operations.
- (f) Adjusted EBITDA excludes the impact of IFRS 16 in Q1 2023 and Q1 2022. If the impact of IFRS 16 was included for Q1 2023 and Q1 2022, Adjusted EBITDA would have been \$(141) and \$2,292, respectively.

ABOUT ROOTS

Established in 1973, Roots is a global lifestyle brand. Starting from a small cabin in northern Canada, Roots has become a global brand with over 100 corporate retail stores in Canada, two stores in the United States, and an eCommerce platform, roots.com. We have more than 100 partner-operated stores in Asia, and we also operate a dedicated Roots-branded storefront on Tmall.com in China. We design, market, and sell a broad selection of products in different departments, including women's men's, children's, and gender-free apparel, leather goods, footwear, and accessories. Our products are built with uncompromising comfort, quality, and style that allows you to feel At Home With Nature™. We offer products designed to meet life's everyday adventures and provide you with the versatility to live your life to the fullest. We also wholesale through business-to-business channels and license the brand to a select group of licensees selling products to major retailers. Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada".

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.

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