



ROOTS REPORTS THIRD QUARTER 2023 RESULTS

- Sales reached \$63.5 million, down 9.0% from \$69.8 million in Q3 2022
 - DTC full-price sales increased 3.0% as compared to Q3 2022
- Gross margin attained 58.4% compared to 56.5% in Q3 2022
 - DTC gross margin of 62.4%, compared to 60.7% in Q3 2022
- Net income totaled \$0.5 million compared to \$2.2 million in Q3 2022
- Adjusted EBITDA amounted to \$5.5 million compared to \$7.3 million in Q3 2022
- Inventory balance of \$61.4 million, was down 15.7% year-over-year
- Net debt reduced 10% year-over-year to \$52.9 million

TORONTO, December 6, 2023 – Roots (“Roots,” “Roots Canada” or the “Company”) (TSX: ROOT), a premium outdoor-lifestyle brand, announced today financial results for its third quarter ended October 28, 2023 (“Q3 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 full-priced sales have shown resilience, underscoring the appeal of our latest products and the success of our intensified marketing strategies in the third quarter. However, the prevailing economic headwinds have altered consumer spending patterns and in the third quarter, we maintained a promotional discipline which influenced our off-price sales dynamics,” commented Meghan Roach, President & CEO of Roots.

SELECT FINANCIAL INFORMATION (in '000s of CAD\$, except where noted)	Third quarter ended			Year-to-date		
	October 28, 2023	October 29, 2022	Change	October 28, 2023	October 29, 2022	Change
Total sales	63,534	69,782	(9.0%)	154,434	160,655	(3.9%)
Direct-to-Consumer (“DTC”) sales	52,203	56,858	(8.2%)	124,712	132,697	(6.0%)
Partners & Other (“P&O”) sales	11,331	12,924	(12.3%)	29,722	27,958	+6.3%
Gross profit	37,118	39,428	(5.9%)	89,040	93,992	(5.3%)
Gross margin¹	58.4%	56.5%	+190 bps ⁴	57.7%	58.5%	+80 bps ⁴
Selling, General and Administrative (“SG&A”) expenses	33,788	33,830	(0.1%)	99,132	95,761	+3.5%
Subsidies and abatements²	-	51	-	-	456	-
Net income (loss)	519	2,209	(76.5%)	(12,781)	(6,287)	(103.3%)
Net income (loss) per share	\$0.01	\$0.05	(80.0%)	\$(0.31)	\$(0.15)	(106.7%)
Adjusted EBITDA³	5,522	7,276	(24.1%)	(3,309)	3,443	(196.1%)

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.

⁴ Basis points (“bps”).

“We continue to make significant progress towards improving our inventory position, reducing by 15.7% year-over-year compared to an increase of 33% to start the year.” said Leon Wu, Chief Financial Officer of Roots. “Combining the full-price sell-through of goods from our prior pack-and-hold strategy with tightened ordering, we achieved this inventory decline while simultaneously reducing our discounting. The lower inventory level gives us greater flexibility towards responding to consumer demand in the products they love and helps maintain a strong level of annual free cash flow.”

“The optimization of our inventory levels also contributed towards the strengthening of our balance sheet, with net debt decreasing by 10%. These achievements, amid a challenging economic landscape, underscores the inherent robustness of our brand and provides us with the ability to continue investing in sustainable, long-term growth,” Mr. Wu added.

THIRD QUARTER OVERVIEW

Total sales decreased 9.0% to \$63.5 million in Q3 2023 from \$69.8 million in the third quarter of fiscal 2022 (“Q3 2022”). DTC sales (corporate retail store and eCommerce sales) reached \$52.2 million, down 8.2% year-over-year. The year-over-year decrease in DTC sales was driven by lower off-price sales reflecting our ongoing promotional discipline and the tightening of consumer discretionary spending in the current macroeconomic environment. This was partially offset by strength in full-price sales, which increased 3% year-over-year, reflecting excitement surrounding the brand and strong product performances, including continued growth of over 50% in our Active collection.

P&O sales (wholesale Roots branded products, licensing to select manufacturing partners and the sale of certain custom products) amounted to \$11.3 million in Q3 2023 compared to \$12.9 million in Q3 2022. The 12.3% decline in sales was attributed to timing shifts in the sales of custom Roots-branded products and a reduction in wholesale orders for Roots-branded products to select retail partners.

Gross profit reached \$37.1 million in Q3 2023 compared to \$39.4 million in Q3 2022, representing a year-over-year decline of 5.9%. Gross margin was 58.4% in Q3 2023, up 190 bps compared to 56.5% in Q3 2022, which was primarily driven by higher gross margins in our DTC segment. DTC gross margin was 62.4% in Q3 2023, up 170 bps from 60.7% in Q3 2022 as a result of increased full-price sales and lower freight costs, including 230 bps from comping last year’s use of air freight. This was partially offset by higher production costs from the transition to sustainable materials and an unfavourable foreign exchange impact on U.S. dollar purchases.

SG&A expenses totaled \$33.8 million in Q3 2023, flat to Q3 2022. SG&A expense was driven by lower shipping rates and variable transaction costs, offset by higher personnel costs and increased investments in marketing.

Net income totaled \$0.5 million, or \$0.01 per share, in Q3 2023, as compared to a net income of \$2.2 million, or \$0.05 per share, in Q3 2022.

Adjusted EBITDA amounted to \$5.5 million in Q3 2023 as compared to \$7.3 million in Q3 2022.

YEAR-TO-DATE RESULTS

For the first nine months of fiscal 2023, total sales amounted to \$154.4 million, representing a decline in sales of 3.9% compared to the first nine months of fiscal 2022. DTC sales decreased 6.0% to \$124.7 million, while P&O sales increased by 6.3% to \$29.7 million. Gross profit stood at \$89.0 million, or 57.7% of sales, down from \$94.0 million, or 58.5% of sales, last year.

Net income (loss) was (\$12.8) million, or (\$0.31) per share, compared to (\$6.3) million, or (\$0.15) per share, last year.

Adjusted EBITDA totaled (\$3.3) million for the first nine months of fiscal 2023 compared to \$3.4 million in the corresponding period in 2022.

FINANCIAL POSITION

Inventory was \$61.4 million at the end of Q3 2023, as compared to \$72.9 million at the end of Q3 2022, representing a decrease of \$11.5 million, or 15.7%. The year-over-year decrease in inventory was driven by \$4.0 million reduction of on-hand inventory and \$7.5 million of lower in-transit goods as we strategically managed our inventory buys to leverage existing core and pack-and-hold collections.

As at October 28, 2023, Roots had a solid financial position with net debt of \$52.9 million, improved from \$58.7 million a year earlier. The Company's leverage ratio, defined as total net debt to trailing 12-months Adjusted EBITDA, was 2.6 times at the end of third quarter. Roots has \$58.8 million outstanding under its credit facilities and total liquidity of \$58.1 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 102,700 common shares of the Company ("Shares") for a total consideration of \$0.3 million in Q3 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. At the end of Q3 2023, 1.7 million Shares had been purchased under the current NCIB program.

CONFERENCE CALL AND WEBCAST INFORMATION

Roots will hold a conference call to review its third quarter 2023 results on December 6, 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: 95249830. Please dial in 15 minutes prior to the call to secure a line. The conference call will be archived for replay until December 13, 2023, at midnight, and can be accessed by dialing 416-764-8677 or 1-888-390-0541 and entering the replay passcode: 249830 #.

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 Q3 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 income (loss) to EBITDA and Adjusted EBITDA for the periods presented:

CAD \$000s	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Net income (loss)	519	2,209	(12,781)	(6,287)
<i>Add the impact of:</i>				
Interest expense (a)	2,552	2,375	7,124	6,436
Income taxes expense (recovery) (a)	259	1,014	(4,435)	(1,918)
Depreciation and amortization (a)	7,358	7,310	22,246	21,688
EBITDA	10,688	12,908	12,154	19,919
<i>Adjust for the impact of:</i>				
SG&A: Rent expense excluded from net income (loss) as a result of IFRS 16 (a)	(5,792)	(5,729)	(17,352)	(17,405)
SG&A: Purchase accounting adjustments (b)	(12)	(12)	(33)	(5)
SG&A: Stock option expense (c)	99	97	332	409
SG&A: Changes in key personnel (d)	404	—	1,453	(5)
SG&A: Non-recurring legal fees (e)	87	12	87	530
SG&A: Other non-recurring items (f)	48	—	50	—
Adjusted EBITDA^(g)	5,522	7,276	(3,309)	3,443

Notes:

- (a) The impact of IFRS 16 in Q3 2023 and Q3 2022 was: (i) a decrease to SG&A expenses of \$1,352 and \$1,309, 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 \$1,214 and \$1,186, respectively, arising from interest expense recorded on the lease liabilities in the period, and (iii) a deferred tax impact of \$36 and \$33, respectively, based on tax attributes on the ROU assets and lease liabilities balances recorded. The impact of IFRS 16 in YTD 2023 and YTD 2022 was: (i) a decrease to SG&A expenses of \$3,885 and \$4,262, respectively, which comprised the impact of depreciation on the ROU assets, net of the exclusion of rent payments from SG&A expenses, (ii) an increase in interest expense of \$3,508 and \$3,582, respectively, arising from interest expense recorded on the lease liabilities in the period, and (iii) a deferred tax impact of \$99 and \$180, 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, 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) In Q3 2023 and YTD 2023, represents one-time costs that do not reflect the underlying profitability of the business, including consulting fees related to inventory valuations used to pursue reduced financing costs.
- (g) Adjusted EBITDA excludes the impact of IFRS 16. If the impact of IFRS 16 was included for Q3 2023 and Q3 2022, Adjusted EBITDA would have been \$11,326 and \$13,017, respectively. If the impact of IFRS 16 was included for YTD 2023 and YTD 2022, Adjusted EBITDA would have been \$14,076 and \$20,853, 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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