



Roots Reports Third Quarter Fiscal 2018 Results and Updates Fiscal 2019 Targets

TORONTO, December 5, 2018 – [Roots](#) (“Roots,” “Roots Canada” or the “Company”) (TSX: ROOT) today announced its financial results for its third fiscal quarter ended November 3, 2018 (“Q3 2018”). All financial results are reported in Canadian dollars unless otherwise stated. Certain metrics, including those expressed on an adjusted or comparable basis, are non-IFRS measures. See “Non-IFRS Measures and Industry Metrics” below.

Third Quarter Fiscal 2018 Highlights

- Total sales of \$87.0 million down 3.0% as compared to \$89.7 million in the third quarter of fiscal 2017 (“Q3 2017”)
 - Direct to Consumer (“DTC”) sales of \$70.7 million, down 8.4% from \$77.2 million in Q3 2017
- Comparable Sales Decline of (13.4%) as compared to Comparable Sales Growth of 10.0% in Q3 2017
- Gross margin expanded to 55.1% from 54.9% in Q3 2017
 - DTC Gross Margin increased 286 basis points to 62.0% from 59.1% in Q3 2017
- Selling, general and administrative expenses of \$42.5 million, up 4.1% from \$40.8 million in Q3 2017
- Adjusted EBITDA of \$10.2 million, down 37.4% from \$16.3 million in Q3 2017
- Basic Earnings Per Share of \$0.07, down 42.0% from \$0.12 per share in Q3 2017, and Adjusted Net Income Per Share of \$0.11, down 52.2% from \$0.23 per share in Q3 2017
- Opened two new corporate retail stores in Canada and two new corporate retail stores in the United States to end the quarter with 125 stores in North America
- Opened four partner-operated stores in Taiwan and six partner-operated stores in China, ending the quarter with 115 stores in Taiwan and 33 in China

“With negative year-over-year consumer traffic for Q3 2018, our financial results for the quarter fell well below our expectations,” said Jim Gabel, President and Chief Executive Officer of Roots. “We faced significant headwinds due to three main factors: a weaker brand voice in the absence of a large marketing campaign, unseasonably warm fall weather that persisted through approximately two-thirds of the quarter, and lapping one-time Canada 150-related sales recorded in Q3 2017. Traffic and comparable sales strengthened as we moved through the quarter and have continued to do so into Q4 2018, including encouraging Black Friday and Cyber Monday results and the successful release of our Shawn Mendes capsule collection.”

Mr. Gabel continued: “We remain extremely confident in the Company’s long-term growth opportunities. Roots is an iconic brand with a 45-year history of delighting our consumers with great products and engaging experiences. Looking to fiscal 2019, we expect to continue to deliver growth. However, in light of the headwinds we faced and our softer sales growth through the first nine months of fiscal 2018, we are revising our previously stated fiscal 2019 financial targets down to sales of \$358 million to \$375 million, Adjusted EBITDA of \$46 million to \$50 million and Adjusted Net Income of \$20 million to \$24 million.”

Summary of Third Quarter Fiscal 2018 Financial Results

Sales

Total Q3 2018 sales decreased 3.0% to \$87.0 million from \$89.7 million in Q3 2017. Sales in the DTC segment (corporate retail store and e-Commerce sales) decreased 8.4% to \$70.7 million, compared to \$77.2 million in Q3 2017, reflecting Comparable Sales Decline of (13.4%). During the quarter, the Company experienced negative traffic trends as compared to Q3 fiscal 2017 due to a weaker brand voice, unseasonably warm fall weather and one-time traffic and sales recorded in Q3 2017 that were related to Canada 150. The Company renovated one store, and relocated and expanded four stores in the quarter. The Company also opened four new stores and closed one store in Q3 2018, with two of the new stores opening at the end of the quarter.

Sales in the Partners and Other segment (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 2018 were \$16.3 million, representing a 29.9% increase as compared to \$12.5 million in Q3 2017. The year-over-year increase was primarily driven by two factors: the early delivery of certain orders to the Company's operating partner in Asia that were initially planned for Q4 2018 and sales growth in Asia, including the opening of 10 new partner-operated stores, four in Taiwan and six in China. The Company also realized a \$0.6 million foreign exchange benefit in Q3 2018.

Gross Profit

Total gross profit for Q3 2018 decreased 2.7% to \$47.9 million, from \$49.3 million in Q3 2017.

Q3 2018 gross profit in the DTC segment decreased 3.9% to \$43.8 million, from \$45.6 million in Q3 2017. Q3 2018 DTC Gross Margin was 62.0%, up 286 basis points from a Q3 2017 DTC Gross Margin of 59.1%. Year-over-year gross margin improvements reflect the benefits of the Company's merchandising initiatives, including the two-year implementation of the United Brand Range, that are driving lower costs, as well as favourable foreign exchange rates on goods purchased in U.S. dollars. The Company achieved its SKU reduction target, reducing Q3 2018 SKU count 40% as compared to Q3 2016.

Gross profit in the Partners and Other segment increased 12.4% to \$4.1 million, from \$3.6 million in Q3 2017.

Selling, general and administrative expenses

Selling, general and administrative expenses for Q3 2018 were \$42.5 million, up 4.1% compared to \$40.8 million in Q3 2017. The year-over-year increase was primarily driven by incremental costs to support a larger retail store footprint as Roots added five net-new corporate retail stores since Q3 2017, as well as strategic investments to drive the long-term growth of the business. Year-over-year, marketing expense increased \$0.3 million, the minimum wage increase in Ontario and Alberta accounted for an additional \$0.5 million and public company costs were an incremental \$0.5 million.

Adjusted EBITDA, Net Income & Adjusted Net Income

Adjusted EBITDA for Q3 2018 was \$10.2 million, down 37.4% as compared to \$16.3 million in Q3 2017.

Net income was \$2.8 million, or \$0.07 per share, compared to \$5.0 million, or \$0.12 per share, in Q3 2017. Adjusted net income was \$4.7 million, or \$0.11 per share, compared to \$9.6 million, or \$0.23 per share, in Q3 2017. In the quarter, the Company recorded an income tax expense of \$1.3 million, compared to \$2.0 million in Q3 2017 with an effective tax rate of 31.4%, up from 28.2% in Q3 2017.

Outlook

Roots expects to deliver growth in fiscal 2019. However, based on the Company's softer sales growth through the first nine months of fiscal 2018, including Q3 2018 results that fell well below the Company's expectations, Roots is revising the fiscal 2019 financial targets it stated at the time of its Initial Public Offering ("IPO").

For the remainder of fiscal 2018 and during fiscal 2019, Roots will continue to execute on its growth strategy with a greater focus on implementing larger scale brand-building marketing campaigns and introducing new innovative and transitional seasonal products into its product line. However, the company will operate with a more conservative pace of expansion until it sees meaningful consumer response to, and sustainable momentum around, both its new marketing initiatives and the products the Company has tested in fiscal 2018 for larger scale rollout in fiscal 2019.

The Company's more conservative pace of execution will be apparent in various ways, including the revised key assumptions underlying its fiscal 2019 outlook regarding renovations and expansions, U.S. store openings, expansion into new international markets and e-Commerce sales as a percentage of total DTC sales, each as set forth in the table below.

Revised Sales Target

Roots is revising its fiscal 2019 sales target range to \$358 million to \$375 million from its previously stated target range of \$410 million to \$450 million, which includes an expectation that average annual Comparable Sales Growth across fiscal 2017, 2018 and 2019 will fall below the Company's previously stated 8.3%.

Revised Adjusted EBITDA and Adjusted Net Income Targets

Due to the decrease in the Company's target sales range for fiscal 2019, Roots is correspondingly revising its fiscal 2019 Adjusted EBITDA target range to \$46 million to \$50 million from its previously stated target range of \$61 million to \$68 million, and is also revising its Adjusted Net Income target range to \$20 million to \$24 million from its previously stated target range of \$35 million to \$40 million.

Roots continues to believe that the long-term fundamentals of the business remain unchanged, with the Company already hitting three of its fiscal 2019 operational targets by Q3 2018: completing a 40% SKU reduction in Q3 2018 compared to Q3 2016; achieving Canadian store openings within the previously stated range of 8 to 10, with 10 new store openings since the Company's IPO; and achieving new international store openings within the previously stated range of 20 to 25, with the addition of 20 new stores in Asia since the Company's IPO. The Company also remains on-track to achieve its expected 300 basis point improvement in gross margin when comparing fiscal 2019 to fiscal 2016.

Roots continues to believe that the strategy it communicated at the time of its IPO best positions the Company for long-term growth, including:

1. fully leveraging operational investments made to drive efficiencies within the business;
2. pursuing continued growth in Canada;
3. expanding the brand's presence in the U.S.;
4. expanding in international markets;
5. deepening the Company's offering in leather and footwear.

However, as a result of the Company's weaker sales trends in the first three quarters of fiscal 2018, in particular Q3 2018, Roots plans to take a more conservative approach to the speed at which it executes in each of these areas.

The key revised assumptions underlying the updated fiscal 2019 outlook above are as follows:

	Updated fiscal 2019 targets	Previous fiscal 2019 targets
Renovations and expansions	19-21	29-33
U.S. store openings	5-6	10-14
International markets	• Continue to add stores in Taiwan and China • Slower entry to new markets • Continued international shipping for e-Commerce	• 20-25 new stores in Taiwan and China • Establish a presence in new markets
e-Commerce as a percentage of DTC sales	17-19%	20-22%

The Company will continue to manage capital investments in the business in a prudent and responsible manner. During fiscal 2018 to date, Roots has made numerous key investments to better position the Company for long-term growth. This includes initiatives to enhance its customer experience and strengthen operations, such as broadening its distribution network for its products with a larger global retail footprint; building out a network of enhanced experience retail locations that serve as brand beacons across North America; enhancing its e-Commerce website; and commencing the buildout of a new distribution centre that will bring retail and e-Commerce fulfillment into a single Roots-operated facility. Throughout the remainder of fiscal 2018 and during fiscal 2019, the Company will continue to strategically invest to drive long-term growth at a level commensurate with current growth expectations.

Conference Call and Webcast Information

Roots will hold a conference call to discuss the Company's third quarter fiscal 2018 financial results on December 5, 2018 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: 5297565. Please dial-in 15 minutes prior to the call to secure a line. The conference call will be archived for replay until December 10, 2018, at midnight and can be accessed by dialing 416-849-0833 or 1-855-859-2056 and entering replay passcode 5297565.

A live audio webcast of the conference call will be available on the Events and Presentations section of the Company's investor website at <http://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 Interim Condensed Consolidated Financial Statements and the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations for the Third Quarter Ended November 3, 2018 on the Company's investor website at <http://investors.roots.com> and on SEDAR at www.SEDAR.com

About Roots

Established in 1973, Roots is a premium outdoor lifestyle brand with a rich Canadian heritage and portfolio of apparel, leather goods, accessories and footwear. Roots delivers products to customers through its store network, online platform and international partnerships. As of November 3, 2018, Roots integrated omni-channel footprint included 118 company retail stores in Canada, seven company retail stores in the United States, 115 partner-operated stores in Taiwan, 33 partner-operated stores in China and a global e-commerce platform. Roots Corporation is a Canadian corporation doing business as "Roots" and "Roots Canada".

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 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 EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss), and Adjusted Net Income (Loss) per Share. This press release also refers to Comparable Sales Growth (or Decline), a commonly used metric in our industry but that may be calculated differently compared to other companies. 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 Annual Information Form for the fiscal year ended February 3, 2018 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, except per share amounts)
(Unaudited)

	As at November 3, 2018	As at February 3, 2018
Assets		
Current assets:		
Cash	\$ 467	\$ 1,809
Accounts receivable	9,971	6,420
Inventories	67,386	35,407
Prepaid expenses	6,691	5,580
Derivative assets	986	—
Total current assets	85,501	49,216
Non-current assets:		
Loan receivable	541	541
Fixed assets	59,541	36,981
Intangible assets	199,890	203,408
Goodwill	52,705	52,705
Total non-current assets	312,677	293,635
Total assets	\$ 398,178	\$ 342,851
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	\$ 12,521	\$ —
Accounts payable and accrued liabilities	27,269	18,306
Deferred revenue	4,115	4,647
Income taxes payable	1,629	6,589
Current portion of long-term debt	4,984	4,984
Derivative obligations	—	1,233
Total current liabilities	50,518	35,759
Non-current liabilities:		
Deferred tax liabilities	22,953	21,166
Deferred lease costs	10,131	4,815
Finance lease obligation	592	894
Long-term debt	116,122	79,481
Other non-current liabilities	1,500	1,763
Total non-current liabilities	151,298	108,119
Total liabilities	201,816	143,878
Shareholders' equity:		
Share capital	196,853	195,994
Contributed surplus	3,454	1,675
Accumulated other comprehensive income (loss)	723	(904)
Retained earnings (deficit)	(4,668)	2,208
Total shareholders' equity	196,362	198,973
Total liabilities and shareholders' equity	\$ 398,178	\$ 342,851

On behalf of the Board of Directors:

"Erol Uzumeri"

Director

"Richard P. Mavrinac"

Director & Audit Committee Chair

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 November 3, 2018 and October 28, 2017

	November 3, 2018 (13 weeks)	October 28, 2017 (13 weeks)	November 3, 2018 (39 weeks)	October 28, 2017 (39 weeks)
Sales	\$ 86,979	\$ 89,690	\$ 198,205	\$ 196,036
Cost of goods sold	39,049	40,420	88,060	89,804
Gross profit	47,930	49,270	110,145	106,232
Selling, general and administrative expenses	42,465	40,784	115,014	105,989
Income (loss) before interest expense and income taxes expense (recovery)	5,465	8,486	(4,869)	243
Interest expense	1,393	1,551	3,736	4,531
Income (loss) before income taxes	4,072	6,935	(8,605)	(4,288)
Income taxes expense (recovery)	1,277	1,956	(1,729)	(928)
Net income (loss)	\$ 2,795	\$ 4,979	\$ (6,876)	\$ (3,360)
Basic and diluted earnings (loss) per share	\$ 0.07	\$ 0.12	\$ (0.16)	\$ (0.08)

ROOTS CORPORATION

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

For the 13 and 39 week periods ended November 3, 2018 and October 28, 2017

	November 3, 2018 (13 weeks)	October 28, 2017 (13 weeks)	November 3, 2018 (39 weeks)	October 28, 2017 (39 weeks)
Net income (loss)	\$ 2,795	\$ 4,979	\$ (6,876)	\$ (3,360)
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	419	1,025	3,517	(1,049)
Cost of hedging excluded from cash flow hedges	54	13	178	76
Tax impact of cash flow hedges	(126)	(277)	(984)	259
Total comprehensive income (loss)	\$ 3,142	\$ 5,740	\$ (4,165)	\$ (4,074)

ROOTS CORPORATION

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

For the 39 week periods ended November 3, 2018 and October 28, 2017

November 3, 2018 (39 weeks)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, February 4, 2018	\$ 195,994	\$ 1,675	\$ 2,208	\$ (904)	\$ 198,973
Net loss	—	—	(6,876)	—	(6,876)
Net gain from change in fair value of cash flow hedges, net of income taxes	—	—	—	2,710	2,710
Transfer of realized gain on cash flow hedges to inventories, net of income taxes	—	—	—	(1,083)	(1,083)
Share-based compensation	—	1,985	—	—	1,985
Issuance of shares	859	(206)	—	—	653
Balance, November 3, 2018	\$ 196,853	\$ 3,454	\$ (4,668)	\$ 723	\$ 196,362

October 28, 2017 (39 weeks)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, January 29, 2017	\$ 195,994	\$ 483	\$ 4,707	\$ —	\$ 201,184
Net loss	—	—	(3,360)	—	(3,360)
Net loss from change in fair value of cash flow hedges, net of income taxes	—	—	—	(714)	(714)
Transfer of realized loss on cash flow hedges to inventories, net of income taxes	—	—	—	598	598
Distributions declared	—	—	(20,000)	—	(20,000)
Share-based compensation	—	611	—	—	611
Balance, October 28, 2017	\$ 195,994	\$ 1,094	\$ (18,653)	\$ (116)	\$ 178,319

ROOTS CORPORATION

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

For the 39 week periods ended November 3, 2018 and October 28, 2017

	November 3, 2018 (39 weeks)	October 28, 2017 (39 weeks)
Cash provided by (used in):		
Operating activities:		
Net loss	\$ (6,876)	\$ (3,360)
Items not involving cash:		
Depreciation and amortization	9,130	8,043
Share-based compensation expense	1,985	611
Deferred lease costs (recovery)	(565)	592
Amortization of lease intangibles	407	701
Interest expense	3,736	4,531
Income taxes recovery	(1,729)	(928)
Interest paid	(3,310)	(4,039)
Taxes paid	(2,036)	(262)
Change in working capital:		
Accounts receivable	(3,551)	(617)
Inventories	(31,979)	(24,433)
Prepaid expenses	(1,111)	(333)
Accounts payable and accrued liabilities	8,963	5,998
Deferred revenue	(532)	(642)
	(27,468)	(14,138)
Financing activities:		
Issuance of long-term debt	40,000	21,000
Long-term debt financing costs	(66)	(999)
Repayment of long-term debt	(3,737)	(7,162)
Finance lease payments	(282)	(118)
Distributions paid	—	(20,000)
Proceeds from issuance of shares	653	—
	36,568	(7,279)
Investing activities:		
Additions to fixed assets	(28,997)	(9,664)
Tenant allowance received	6,034	1,262
	(22,963)	(8,402)
Decrease in cash	(13,863)	(29,819)
Cash, beginning of period	1,809	25,257
Cash and bank indebtedness, end of period	\$ (12,054)	\$ (4,562)

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