DAVIDsTEA

# DAVIDsTEA Reports Fourth Quarter and Full Year Fiscal 2022 Financial Results

April 28, 2023

**Fiscal 2022**

- Sales of $83.0 million
- Net loss of $14.9 million
- Adjusted EBITDA negative $5.0 million
- Cash position of $22.4 million

**Q4 2022**

- Sales of $31.4 million
- Net loss of $3.3 million
- Adjusted EBITDA negative $0.9 million
- Wholesale expansion into U.S. in fall 2023 in over 400 grocery stores

MONTREAL, April 28, 2023 (GLOBE NEWSWIRE) -- DAVIDsTEA Inc. (TSX-Venture: DTEA) ("DAVIDsTEA" or the "Company"), a leading tea merchant in North America, announced today its fourth quarter and full year results for the period ended January 28, 2023.

"Sales and profitability decreased in fiscal 2022 as rising inflation and higher interest rates significantly reduced customer demand," said Sarah Segal, Chief Executive Officer and Chief Brand Officer, DAVIDsTEA. "Our recently implemented cost-containment plan, which will lower our cost base between $8.0 to $10.0 million on an annual basis, should help mitigate current macro-economic uncertainty, while we drive long-term demand for our premium tea offerings and accessories through our omnichannel growth strategy.

"Aligned with our growth strategy, we recently signed a distribution agreement with the largest publicly traded wholesale distributor of health and specialty foods in the U.S. supplying national and regional grocery chains," Ms. Segal added. "We will also be launching six SKUs of flavourful sachet packs at more than 400 grocery stores in the northeastern U.S. this fall to further expand our wholesale footprint. Long-term brand expansion and profitability remain the key focus areas of the Company with a strong emphasis on tea leadership, sustainability and elevating the brand experience."

"Given challenging market conditions in the fourth quarter, sales declined 21.4% year-over-year to $31.4 million, slightly above the range provided in our preliminary results announcement in early February," said Frank Zitella, President, Chief Financial and Operating Officer, DAVIDsTEA. "Reduced sales, combined with a highly promotional selling environment and operational delays in fulfilling customer orders, negatively impacted our profitability in the fourth quarter. We believe these headwinds are temporary and will gradually dissipate in upcoming months. In the meantime, we have a solid cash position of $22.4 million and no debt to help us navigate through unfavourable economic conditions."

**Operating Results for the Fourth Quarter of Fiscal 2022**

*Three Months Ended January 28, 2023 compared to Three Months Ended January 29, 2022*

***Sales***. Sales decreased 21.4% to $31.4 million from $39.9 million in the fourth quarter of Fiscal 2022. Sales in Canada of $25.4 million, representing 81.0% of total revenues, decreased $6.0 million or 19.2% over the prior year quarter. U.S. sales of $6.0 million declined by $2.5 million or 29.4% over the prior year quarter.

Considering the generally unfavorable economic conditions and the impact to consumer confidence, we were highly promotional in the fourth quarter of Fiscal 2022 compared to the prior year which had a negative impact to our Gross Profit as noted below. We also experienced significant operational delays this year in fulfilling consumer online orders which had a negative impact on sales in the second half of the fourth quarter as consumers became aware of the longer than usual online order delivery experience.

Our tea and accessories assortment performed well, with sales amounting to $23.4 million, representing an increase of $2.2 million or 10.5% over the prior year quarter. Offsetting this was a decline in our variety box assortment over the same period in the prior year.

Sales from e-commerce and wholesale channels decreased by $7.4 million or 24.0% to $23.3 million, from $30.7 million in the prior year quarter as previous two years of pandemic-fueled online sales continued to level out. E-commerce and wholesale sales represented 74.4% of sales compared to 77.0% of sales in the prior year quarter. Brick-and-mortar decreased by $1.2 million or 12.5% to $8.0 million from $9.2 million for the same period in the prior year.

***Gross profit***. Gross profit decreased by 44.0% to $8.6 million in the fourth quarter of Fiscal 2022 from the prior year quarter due to lower sales, a greater emphasis on promotions, an increase in freight, shipping and fulfillment costs. Gross profit as a percentage of sales decreased to 27.4% for the quarter compared to 38.5% in the prior year quarter.

***Selling, general and administration expenses***. Selling, general and administration expenses ("SG&A") of $11.9 million decreased by $2.0 million or 14.4% compared to the prior year quarter primarily due to decreases in online marketing expenses of $1.4 million, compensation related savings of $176, net of $359 in separation costs, reduction in amortization costs of $263, reductions in professional and consulting fees of $234 and insurance costs of $131. Partially offsetting this cost reduction was a provision for legal claims of $351 and a provision of $559 against supplies inventory. As a percentage of sales, SG&A increased to 38.0% in this quarter from 35.0% in the prior year quarter.

***EBITDA and Adjusted EBITDA*[1]*.*** EBITDA was negative $2.5 million in the quarter ended January 28, 2023, compared to $2.6 million in the prior year quarter representing a decrease of $5.1 million. Adjusted EBITDA for the quarter ended January 28, 2023, was negative $0.9 million compared to $3.7 million for the same period in the prior year. The decrease in Adjusted EBITDA, of $4.6 million, reflects the impact of decreased Sales and Gross Profit, partially offset by a decrease in SG&A, as noted above.

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[1] For a reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable measure calculated in accordance with "IFRS", see "Non-IFRS financial measures and ratios", above.

***Net income (loss)*).** Net loss was $3.3 million in the quarter ended January 28, 2023, compared to a Net income of $1.3 million in the prior year quarter. Adjusted net loss, was to $2.2 million compared to Adjusted net income of $1.9 million in the prior year quarter.

***Fully diluted net income (loss) per share*.** Fully diluted net loss per common share was $0.12 compared to a fully diluted net income of $0.05 in the prior year quarter. Adjusted fully diluted net loss per common share[1], which is Adjusted net loss on a fully diluted weighted average shares outstanding basis, was $0.08 compared to an adjusted fully diluted net income of $0.07 in the prior year quarter.

***Cash on hand*.** At the end of the fourth quarter of Fiscal 2022, the Company had cash amounting to $22.4 million.

**Operating Results for the Fiscal Year Ended January 28, 2023 compared to Fiscal 2021**

***Sales.*** Sales for Fiscal 2022 decreased by 20.2% or by $21.0 million, to $83.0 million from $104.1 million in Fiscal 2021. Sales in Canada of $67.7 million, representing 81.5% of total revenues, decreased $14.9 million or 18.0% over the prior year. U.S. sales of $15.3 million decreased by $6.2 million or 28.8% over the prior year.

Sales in variety box assortment amounted to $25.3 million, representing a decrease of $14.9 million or 37.2% over the prior year. There was a decline in our tea and hard-goods assortment of $6.1 million or 9.6% over the prior year.

Sales from e-commerce and wholesale channels decreased by $21.8 million or 26.1% to $61.7 million from $83.5 million in the prior year. E-commerce and wholesale sales represented 74.3% of sales compared to 80.2% of sales in the prior year. Brick-and-mortar sales increased by $0.8 million or 3.7% to $21.4 million from $20.6 million in the prior year.

***Gross profit.*** Gross profit decreased by 33.1% or $14.0 million, to $28.3 million in Fiscal 2022 in comparison to Fiscal 2021 due primarily to a decline in sales during the year and a lower gross margin. Gross profit as a percentage of sales decreased to 34.1% for the year ended January 28, 2023, from 40.7% in the prior year.

***Selling, general and administration expenses.*** SG&A expenses increased by $0.8 million or 1.9%, to $42.9 million in Fiscal 2022. Excluding the impact of the wage and rent subsidies received under the Canadian government COVID-19 Economic Response Plan amounting to $4.4 million, SG&A costs decreased by $3.5 million. Cost reductions in Fiscal 2022 were primarily attributable to head-office staff compensation reduction of $878, partially offset by $359 in separation costs, amortization cost reduction of $1.1million, marketing cost reduction of $793 and professional and consulting services cost reduction of $716. These cost reductions were partially offset by increased wages in our retail stores, a provision for legal claims of $351 and a provision of $559 against supplies inventory. As a percentage of sales, SG&A increased to 51.6% in Fiscal 2022 from 40.4% in the prior year.

***Restructuring plan activities, net.*** Restructuring plan activities, net is $nil compared to a gain of $76.9 million in the prior year. Included in last year's gain is the impact of the Sanction Order that was granted on June 16, 2021. Therein, net liabilities subject to compromise amounting to $95.3 million were settled according to the Sanction Order by payment of $17.6 million through the Monitor to creditors who had duly proven their claims as part of the claims process. The resulting gain of $79.9 million was reduced by $2.0 million of professional fees in connection with the CCAA proceedings and presented in the consolidated statements of income (loss) and comprehensive income (loss) in Restructuring Plan activities, net and Recovery of income taxes as a net gain of $76.9 million and $1.0 million, respectively.

***EBITDA and Adjusted EBITDA*[1]*.*** EBITDA was negative $11.1 million in the year ended January 28, 2023 compared to favourable $81.5 million in the prior year representing a decrease $92.5 million over the prior year. Adjusted EBITDA for the year ended January 28, 2023, was negative $5.0 million compared to favourable $5.3 million in the prior year. The decrease in Adjusted EBITDA, of $10.2 million relates in a large part to the decrease in sales and gross profit.

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[1] For a reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable measure calculated in accordance with "IFRS", see "Non-IFRS financial measures and ratios", above.

***Recovery of income tax.*** Recovery of income tax amounted to $nil compared to $1.0 million in Fiscal 2021. The recovery last year was due to the classification of the gain resulting from Restructuring Plan activities, net noted above.

***Net income (loss).*** Net loss was $14.9 million in the year ended January 28, 2023 compared to a Net income of $78.1 million in the prior year. Adjusted net loss amounted to $10.2 million compared to an Adjusted net loss of $0.5 million in the prior year.

***Fully diluted earnings (loss) per common share.*** Fully diluted net loss per common share was $0.56 in Fiscal 2022 compared to a fully diluted net earnings per share of $2.83 in Fiscal 2021. Adjusted fully diluted loss per common share, which is Adjusted net loss on a fully diluted weighted average shares outstanding basis, was $0.38, compared to $0.02 in the prior year.

**Liquidity and Capital Resources**

As at January 28, 2023, we had $22.4 million of cash held by major Canadian financial institutions.

Working capital was $30.8 million as at January 28, 2023 compared to $43.4 million as at January 29, 2022. The decrease in working capital is substantially explained by a decrease in cash and inventories.

Our primary source of liquidity is cash on hand and cashflow generated from operations. Our working capital requirements are driven by the purchase of inventory, payment of payroll, ongoing technology expenditures and other operating costs.

Our working capital requirements fluctuate during the year, rising in the second and third fiscal quarters as we take title to increasing quantities of inventory in anticipation of our peak selling season in the fourth fiscal quarter. Capital expenditures in our new business model are not significant and amounted to $129 in Fiscal 2022 (Fiscal 2021 - $52).

As at January 28, 2023, the Company has financial commitments in connection with the purchase of goods and services that are enforceable and legally binding on the Company, amounting to $6.7 million, net of $815 of advances (Fiscal 2021 - $11.3 million, net of $542 of advances) which are expected to be discharged within 12 months.

**Condensed Consolidated Financial Data**
(Canadian dollars, in thousands, except per share information)

| | For the three months ended | | For the twelve months ended | |
|---|---|---|---|---|
| | January 28, 2023 | January 29, 2022 | January 28, 2023 | January 29, 2022 |
| Sales | $ 31,356 | $ 39,878 | $ 83,026 | $ 104,073 |
| Cost of sales | 22,749 | 24,514 | 54,714 | 61,740 |
| Gross profit | 8,607 | 15,364 | 28,312 | 42,333 |
| Selling, general and administration expenses | 11,929 | 13,943 | 42,864 | 42,054 |
| Restructing plan activities, net | — | 107 | — | (76,857) |
| Results from operating activities | (3,322) | 1,314 | (14,552) | 77,136 |
| Finance costs | 198 | 48 | 730 | 152 |
| Finance income | (178) | (25) | (414) | (143) |
| Net (loss) income before income taxes | (3,342) | 1,291 | (14,868) | 77,127 |
| Recovery of income taxes | — | — | — | (1,000) |
| Net (loss) income | $ (3,342) | $ 1,291 | $ (14,868) | $ 78,127 |
| EBITDA[1] | $ (2,471) | $ 2,613 | $ (11,057) | $ 81,454 |
| Adjusted EBITDA[1] | (933) | 3,696 | (4,977) | 5,251 |
| Adjusted net (loss) income [1] | (2,153) | 1,906 | (10,200) | (481) |
| Adjusted fully diluted loss (income) per common share[1] | $ (0.08) | $ 0.07 | $ (0.38) | $ (0.02) |
| Gross profit as a percentage of sales | 27.4% | 38.5% | 34.1% | 40.7% |
| SG&A expenses as a percentage of sales | 38.0% | 35.0% | 51.6% | 40.4% |
| Cash flows provided by (used in) operating activities | $ 7,065 | $ 11,978 | $ 488 | $ (4,241) |
| Cash flows used in financing activities | (754) | (238) | (3,026) | (797) |
| Cash used in investing activities | — | — | (129) | (52) |
| Decrease in cash during the period | 6,311 | 11,740 | (2,667) | (5,090) |
| Cash, end of period | $ 22,440 | $ 25,107 | $ 22,440 | $ 25,107 |

| *As at* | January 28, 2023 | October 29, 2022 | July 30, 2022 | April 30, 2022 |
|---|---|---|---|---|
| Cash | $ 22,440 | $ 16,131 | $ 19,048 | $ 22,680 |
| Accounts and other receivables | 3,258 | 3,937 | 2,497 | 3,197 |
| Prepaid expenses and deposits | 5,839 | 6,137 | 5,172 | 4,479 |
| Inventories | 19,522 | 29,985 | 30,234 | 28,359 |
| Trade and other payables | $ 12,310 | $ 14,445 | $ 11,701 | $ 8,966 |

[1] Please refer to “Use of Non-IFRS Financial Measures” in this press release.

**Use of Non-IFRS Financial Measures**

This press release includes “non-IFRS financial measures” defined as including: 1) EBITDA and Adjusted EBITDA, 2) Adjusted net (loss) income, and 3) Adjusted fully diluted (loss) income per common share. These non-IFRS financial measures are not defined by or in accordance with IFRS and may differ from similar measures reported by other companies. We believe that these non-IFRS financial measures provide knowledgeable investors with useful information with respect to our historical operations. We present these non-IFRS financial measures as supplemental performance measures because we believe they facilitate a comparative assessment of our operating performance relative to our performance based on our results under IFRS, while isolating the effects of some items that vary from period-to-period but not in substitution to IFRS financial measures.

Please refer to the non-IFRS financial measures section in the Company's Management's Discussion and Analysis for a reconciliation to IFRS financial measures.

**Note**

This release should be read in conjunction with the Company's Management's Discussion and Analysis, which is filed by the Company with the Canadian securities regulatory authorities on www.sedar.com and will also be available in the Investor Relations section of the Company's website at www.davidstea.com.

**Caution Regarding Forward-Looking Statements**

This press release includes statements that express our opinions, expectations, beliefs, plans or assumptions regarding future events or future results and there are, or may be deemed to be, “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”). The following cautionary statements are being made pursuant to the provisions of the Act and with the intention of obtaining the benefits of the “safe harbor” provisions of the Act. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms “believes”, “expects”, “may”, “will”, “should”, “approximately”, “intends”, “plans”, “estimates” or “anticipates” or, in each case, their negatives or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our strategy of transitioning to e-commerce and wholesale sales, future sales through our e-commerce and wholesale channels, our results of operations, financial condition, liquidity and prospects, and the impact of the COVID-19 pandemic on the global macroeconomic environment.

While we believe these opinions and expectations are based on reasonable assumptions, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including the risk factors discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations for our fiscal year ended January 28, 2023, filed with the Autorité des marchés financiers, on April 28, 2023 which could materially affect our business, financial condition or future results.

**Conference Call Information**

A conference call to discuss the fourth quarter Fiscal 2022 financial results is scheduled for April 28, 2023, at 8:30 am Eastern Time. The conference call will be webcast and may be accessed via the Investor Relations section of the Company's website at ir.davidstea.com. An online archive of the webcast will be available within two hours of the conclusion of the call and will remain available for one year.

**About DAVIDsTEA**
DAVIDsTEA offers a specialty branded selection of high-quality proprietary loose-leaf teas, pre-packaged teas, tea sachets, tea-related accessories and gifts through its e-commerce platform at www.davidstea.com and the Amazon Marketplace, its wholesale customers which include over 3,800 grocery stores and pharmacies, and 18 company-owned stores across Canada. The Company offers primarily proprietary tea blends that are exclusive to the Company, as well as traditional single-origin teas and herbs. Our passion for and knowledge of tea permeates our culture and is rooted in an excitement to explore the taste, health and lifestyle elements of tea. With a focus on innovative flavours, wellness-driven ingredients and organic tea, the Company launches seasonally driven “collections” with a mission of making tea fun and accessible to all. The Company is headquartered in Montréal, Canada.

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