



DAVIDsTEA Reports Financial Results for First Quarter of Fiscal 2023

June 13, 2023

- Sales of \$14.3 million
- Net loss of \$2.0 million
- SG&A expenses down 21.9% year-over-year to \$7.9 million
- Series of value creation initiatives planned to drive sales growth
- Order fulfillment activities to be taken in-house for enhanced consumer experience

MONTREAL, June 13, 2023 (GLOBE NEWSWIRE) -- DAVIDsTEA Inc. (TSX-Venture: DTEA) ("DAVIDsTEA" or the "Company"), a leading tea merchant in North America, announced today its first quarter results for the period ended April 29, 2023.

"We are encouraged by the early results of our cost-containment plan, although consumer confidence continued to be dampened by challenging economic conditions in the first quarter of fiscal 2023," said Sarah Segal, Chief Executive Officer and Chief Brand Officer, DAVIDsTEA. "SG&A expenses in the first quarter decreased nearly 22% year-over-year mainly due to a reduction in online marketing expenses, lower software implementation costs and payroll savings related to the streamlining of our operations."

"Our focus remains on implementing value creation initiatives that will drive sales growth. Key initiatives include: improving the online customer experience through updated product information and storytelling; the upcoming release of a shoppable mobile app; expanding our wholesale footprint into the U.S. this fall at over 400 grocery stores; strengthening our flagship model with the launch of new and upgraded retail stores with tea bars; and fuelling innovation through an enhanced premium product offering featuring ready-to-drink beverages, superfood latte powders and matcha-like powders. We believe these revenue-generating actions, combined with customer awareness and acquisition activities, improved customer satisfaction and ongoing financial discipline, are necessary measures that will allow us to achieve profitable growth," added Ms. Segal.

"Due to persistent headwinds in the economic environment, sales declined 29.4% year-over-year to \$14.3 million in the first quarter," said Frank Zitella, President, Chief Financial and Operating Officer, DAVIDsTEA. "Despite reduced sales, our gross margin remained relatively stable at 40.3% due to the numerous actions undertaken to mitigate the impact of a lower revenue run-rate."

"As we assessed the strengths and weaknesses of our ability to provide a best-in-class consumer experience, we concluded that a change was required in our order fulfillment operations. We are pleased to announce that starting in the third quarter, we will be fulfilling consumer orders in-house to better support the fast service and elevated brand experience consumers expect from a premium online retailer like DAVIDsTEA," added Mr. Zitella.

Mr. Zitella noted that at quarter end the Company had a solid cash position of \$19.6 million and no interest-bearing debt, which should allow the Company to manage operations through this volatile consumer environment.

Operating Results for the First Quarter of Fiscal 2023

Three Months Ended April 29, 2023 compared to Three Months Ended April 30, 2022

Sales. Sales decreased 29.4% to \$14.3 million from \$20.3 million in the first quarter of Fiscal 2023. Sales in Canada of \$12.2 million, representing 85.2% of total revenues, dropped \$4.4 million or 26.5% over the prior year quarter. U.S. sales of \$2.1 million declined by \$1.6 million or 42.5% over the prior year quarter.

Sales continue to be impacted by unfavorable economic conditions that dampen consumer demand. We also believe that our e-commerce revenues have been impacted by order fulfillment difficulties encountered in the fourth quarter that left many consumers frustrated. As a result, on June 9, 2023 the Company sent a notice of termination, effective July 23, 2023, to its current fulfillment service provider and is in discussions with it concerning an orderly transition. Although the service provider has indicated that it may dispute the Company's right to unilaterally accelerate termination of the agreement, the Company is fully confident that it has the legal right to do so.

Tea and variety box assortment sales decreased by 28.5% or \$5.0 million to \$12.8 million over the prior year quarter. Tea accessories sales decreased by 34.3% or \$0.7 million, to \$1.4 million over the prior year quarter.

Online sales of \$7.6 million decreased by \$5.3 million or 40.6% from the prior year quarter as we continued to see a levelling out of pandemic-fueled online sales in addition to the impact to consumer loss resulting from order fulfillment challenges experienced in the fourth quarter, that we have not recovered from. E-commerce sales represented 53.4% of sales compared to 63.3% of sales in the prior year quarter.

Sales from the wholesale channel decreased by \$0.3 million or 11.1%, to \$2.4 million, from \$2.7 million in the prior year quarter. Wholesale sales represented 16.8% of sales compared to 13.5% of sales in the prior year quarter.

Brick-and-mortar sales declined by \$0.4 million, or 8.5%, to \$4.3 million from \$4.7 million for the same period in the prior year.

Gross profit. Gross profit dropped by 29.7% to \$5.8 million in the first quarter of Fiscal 2023 from the prior year quarter due to lower sales and a per unit increase in freight, shipping and fulfillment costs. Gross profit as a percentage of sales decreased slightly to 40.3% for the quarter compared to 40.5% in the prior year quarter. At a segment level, Gross profit was 40.1% and 41.7% in the quarter compared to 40.9% and 38.6% in the prior year quarter in Canada and U.S., respectively.

Selling, general and administration expenses. Selling, general and administration expenses ("SG&A") of \$7.9 million decreased by \$2.2 million, or 21.9% compared to the prior year quarter primarily due to a decline in online marketing expenses of \$1.1 million, lower software implementation costs

of \$0.8 million and savings of \$0.4 million in compensation. As a percentage of sales, SG&A increased to 54.9% in the first quarter from 49.5% in the prior year quarter, due to a deleveraging of fixed costs as a result of decreased sales this quarter.

EBITDA and Adjusted EBITDA¹. EBITDA was negative \$1.2 million in the quarter ended April 29, 2023, compared to negative \$1.0 million in the prior year quarter, representing a decline of \$0.2 million. Adjusted EBITDA for the quarter ended April 29, 2023, was negative \$0.9 million compared to \$0.1 million for the same period in the prior year. The decrease in Adjusted EBITDA, of \$1.0 million, reflects the impact of lower Sales and Gross profit, partially offset by a decline in SG&A expenses.

Net loss. Net loss totaled \$2.0 million in the quarter ended April 29, 2023, compared to a net loss of \$2.0 million in the prior year quarter. Adjusted net loss was to \$1.9 million in the first quarter compared to Adjusted net loss of \$1.2 million in the prior year quarter.

Fully diluted net loss per share. Fully diluted net loss per common share amounted to \$0.07 in the first quarter compared to a fully diluted net loss per common share of \$0.07 in the prior year quarter. Adjusted fully diluted net loss per common share¹, which is Adjusted net loss on a fully diluted weighted average shares outstanding basis, was \$0.07 compared to an Adjusted fully diluted net loss of \$0.05 in the prior year quarter.

Liquidity and Capital Resources

As at April 29, 2023, the Company had \$19.6 million of cash held by major Canadian financial institutions.

Working capital was \$28.7 million as at April 29, 2023 compared to \$30.8 million as at January 28, 2023. The decrease in working capital can be attributed to a decrease in cash and inventories, partially offset by a decline in accounts payable.

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

Working capital requirements fluctuate during the year, rising in the second and third fiscal quarters as DAVIDsTEA takes title to increasing quantities of inventory in anticipation of the peak selling season in the fourth fiscal quarter. Capital expenditures amounted to \$0.6 million in the first quarter of Fiscal 2023 relate to store leasehold improvements of \$509, furniture and equipment of \$59 and the addition of intangible assets of \$54 compared to nil additions in prior year quarter.

As at April 29, 2023, the Company had financial commitments in connection with the purchase of goods and services that are enforceable and legally binding, amounting to \$7.9 million, net of \$0.7 million of advances (January 28, 2023 - \$6.7 million, net of \$0.8 million 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	
	April 29, 2023	April 30, 2022
Sales	\$ 14,313	\$ 20,287
Cost of sales	8,541	12,079
Gross profit	5,772	8,208
Selling, general and administration expenses	7,853	10,050
Results from operating activities	(2,081)	(1,842)
Finance costs	182	171
Finance income	(280)	(39)
Net loss	<u>\$ (1,983)</u>	<u>\$ (1,974)</u>
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EBITDA ¹	\$ (1,230)	\$ (976)
Adjusted EBITDA ¹	(887)	89
Adjusted net loss ¹	(1,883)	(1,219)
Adjusted fully diluted loss per common share ¹	\$ (0.07)	\$ (0.05)
Gross profit as a percentage of sales	40.3%	40.5%
SG&A expenses as a percentage of sales	54.9%	49.5%
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Cash flows used in operating activities	\$ (1,465)	\$ (1,678)
Cash flows used in financing activities	(770)	(749)
Cash used in investing activities	(622)	—
Decrease in cash during the period	<u>(2,857)</u>	<u>(2,427)</u>
Cash, end of period	<u>\$ 19,583</u>	<u>\$ 22,680</u>

As at	April 29, 2023	January 28, 2023
Cash	\$ 19,583	\$ 22,440
Accounts and other receivables	2,769	3,258
Prepaid expenses and deposits	4,992	5,839
Inventories	18,184	19,522
Trade and other payables	\$ 9,057	\$ 12,310

¹ Please refer to "Use of Non-IFRS Financial Measures" in this press release.

Use of Non-IFRS Financial Measures and Ratios

This press release includes "non-IFRS financial measures and ratios" 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 and ratios 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 first quarter Fiscal 2023 financial results is scheduled for June 13, 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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¹ For a reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable measure calculated in accordance with “IFRS”, see “Use of non-IFRS financial measures and ratios”, in this press release.



Source: DAVIDsTEA