DAVIDsTEA Reports Financial Results for Second Quarter of Fiscal 2023

September 12, 2023

- Sales of $9.8 million
- Reduced SG&A expenses by 25.1% year-over-year to $7.9 million
- Net loss of $4.3 million in line with management's expectations on path to profitability
- Opened third Tea Bar at Toronto Eaton Centre location, with other Tea Bars planned for later this year
- Order fulfillment activities taken in-house for enhanced consumer experience

MONTREAL, Sept. 12, 2023 (GLOBE NEWSWIRE) -- DAVIDsTEA Inc. (TSX-Venture: DTEA) ("DAVIDsTEA" or the "Company"), a leading tea merchant in North America, announced today its second quarter results for the period ended July 29, 2023.

"While our sales continued to be dampened by challenging economic conditions, particularly in our online channel, we moved forward with our focus on value creation initiatives during the quarter and delivering excellent customer experiences," said Sarah Segal, Chief Executive Officer and Chief Brand Officer, DAVIDsTEA. "In June, we opened an in-store Tea Bar at our Toronto Eaton Centre location, marking our first in-store Tea Bar outside of the Quebec market following the Tea Bars at Galleries Les Capitales in Quebec City and Carrefour Laval in the greater Montreal region. We look forward to continuing our focus on our flagship stores and customer experience by bringing the Tea Bar concept to an even larger Canadian consumer audience with additional locations set to open in Ottawa's Rideau Centre and in Vancouver's Pacific Centre later this year. Towards the end of the quarter, we internalized our online fulfillment to provide an elevated brand experience, resulting in immediate improvements in the overall customer experience. Still to come, we have the release of our shoppable mobile app, the planned expansion of our wholesale footprint into the U.S. this fall, and the ongoing strengthening of our flagship store model with the launch of new and upgraded retail stores."

"At the same time, we continue to fuel innovation through an enhanced premium product offering featuring an expansion of our cold relief, immunity and wellness tea assortment. This fall, we're delighted to introduce four new wellness-driven teas designed to support immunity and overall well-being. Our 'Immunity SOS Tea' combines citrusy orange, ginger, and echinacea to boost immunity as a compliment to our popular line of cold-relief teas. Our 'Golden Sun Tea Powder' and 'Ashwagandha Pumpkin Superfood Tea Powder' are blended for immunity-boosting and relaxation. Lastly, our 'Super Shroom Matcha' features adaptogenic mushrooms on an organic matcha base for balance and focus. The company remains committed to delivering natural and organic ingredients to tea lovers, catering to all consumer preferences, making tea fun and accessible to all," added Ms. Segal.

"While we are not pleased with our overall financial performance, we are very satisfied with the results thus far from our cost-containment plan, as we reduced our year-over-year SG&A expenses by 25.1% in the quarter," said Frank Zitella, President, Chief Financial and Operating Officer, DAVIDsTEA. "Having reduced our SG&A expenses by $5.0 million through the first six months of fiscal 2023, we are well on our way to achieving our goal of reducing our annual SG&A costs by between $8 million and $10 million. At the same time, we anticipated a slower quarter and fully expected to incur losses over the short term as we focus on stabilizing the business and returning to profitability with positive EBITDA[1] for the year. We exited the quarter with a solid cash and working capital position, which should allow us to manage operations while we continue to implement value creation initiatives aimed at driving profitable growth."

Operating Results for the Second Quarter of Fiscal 2023

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

Sales. Sales for the second quarter of Fiscal 2023 decreased by $5.4 million, or 35.3%, to $9.8 million. Sales in Canada of $8.4 million, representing 85.2% of total revenues, dropped $4.4 million or 34.5% over the prior year quarter. U.S. sales of $1.5 million declined by $1.0 million or 39.6% 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 significantly impacted by order fulfillment failures in the fourth quarter of 2022 that left many consumers frustrated. On June 9, 2023, the Company sent a notice of termination, effective July 23, 2023, to its fulfillment service provider at that time. The Company internalized fulfillment services to its Canadian consumers effective July 24, 2023, and to its US consumers effective July 29, 2023, and as a result we have seen immediate and tangible improvements in the overall customer experience.

Tea and variety box assortment sales decreased by 34.0% or $4.5 million to $8.7 million over the prior year quarter. Tea accessories sales decreased by 36.1% or $0.5 million, to $0.9 million over the prior year quarter.

Online sales of $4.8 million decreased by $3.5 million or 41.4% 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 of 2022, that we have not recovered from. E-commerce sales represented 49.5% of sales compared to 54.8% of sales in the prior year quarter.

Sales from the wholesale channel decreased by $1.3 million or 47.5%, to $1.4 million, from $2.7 million in the prior year quarter. Wholesale sales represented 14.3% of sales compared to 17.6% of sales in the prior year quarter.

Brick-and-mortar sales declined by $0.6 million, or 15.4%, to $3.6 million from $4.2 million for the same period in the prior year. Brick-and-mortar sales represented 36.2% of sales compared to 27.6% of sales in the prior year quarter.

Gross profit. Gross profit dropped by 37.7% to $3.6 million in the second 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 36.9% for the quarter compared to 38.3% in the prior year quarter. At a segment level, Gross profit was 36.2% and 41.3% in the quarter compared to 38.0% and 40.0% 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 $2.7 million, or 25.1% compared to the prior year quarter. Management set out to reduce its annual SG&A costs between $8.0 million and $10.0 million at the start of the year and is well on its way to achieving its goal. This net decrease is due primarily to the elimination of software implementation costs of $1.3 million, reduction of staff compensation costs of $0.8 million, a reduction in online marketing expenses of $0.6 million and reduction of professional and consulting fees of $0.3 million, partially offset by costs related to internalizing fulfillment services of $0.8 million and ongoing IT maintenance costs of $0.2 million. As a percentage of sales, SG&A increased to 80.6% in the second quarter from 69.5% in the prior year quarter, due to a deleveraging of fixed costs as a result of decreased sales this quarter.

EBITDA and Adjusted EBITDA[1]. EBITDA was negative $3.4 million in the quarter ended July 29, 2023, compared to negative $3.9 million in the prior year quarter. Adjusted EBITDA for the quarter ended July 29, 2023, was negative $2.6 million compared to negative $2.1 million for the same period in the prior year. The decrease in Adjusted EBITDA, of $0.5 million, reflects the impact of lower Sales and Gross Profit, partially offset by a decline in SG&A expenses.

Net loss*.* Net loss totaled $4.3 million in the quarter ended July 29, 2023, compared to a net loss of $4.8 million in the prior year quarter. Adjusted net loss was $3.6 million in the second quarter compared to Adjusted net loss of $3.5 million in the prior year quarter.

Fully diluted net loss per share*.* Fully diluted net loss per common share amounted to $0.16 in the second quarter compared to a fully diluted net loss per common share of $0.18 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 $0.14 compared to an Adjusted fully diluted net loss of $0.13 in the prior year quarter.

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

Liquidity and Capital Resources

As at July 29, 2023, the Company had $14.2 million of cash held by major Canadian financial institutions.

Working capital was $24.5 million as at July 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, accounts receivable 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 of $321 in the second quarter of Fiscal 2023 include furniture and equipment of $152, store leasehold improvements of $71, computer hardware of $21 and intangible assets of $77 compared to $129 additions in prior year quarter related to furniture and equipment.

As at July 29, 2023, the Company had financial commitments in connection with the purchase of goods and services that are enforceable and legally binding, amounting to $8.3 million, net of $1.2 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		For the six-months ended	
	July 29, 2023	**July 30, 2022**	**July 29, 2023**	**July 30, 2022**
Sales	$ 9,834	$ 15,207	$ 24,147	$ 35,494
Cost of sales	6 203	9,380	14 889	21,459
Gross profit	3 631	5,827	9 258	14,035
Selling, general and administration expenses	7 922	10,572	15 630	20,622
Results from operating activities	(4,291)	(4,745)	(6,372)	(6,587)
Finance costs	177	167	359	338
Finance income	(216)	(77)	(496)	(116)
Net loss	$ (4,252)	$ (4,835)	$ (6,235)	$ (6,809)
EBITDA[1]	$ (3,400)	$ (3,851)	$ (4,629)	$ (4,827)
Adjusted EBITDA[1]	(2,593)	(2,128)	(3,479)	(2,039)
Adjusted net loss [1]	(3,622)	(3,510)	(5,505)	(4,729)
Adjusted fully diluted loss per common share[1]	$ (0.14)	$ (0.13)	$ (0.21)	$ (0.18)
Gross profit as a percentage of sales	36.9%	38.3%	38.3%	39.5%
SG&A expenses as a percentage of sales	80.60%	69.5%	64.7%	58.1%

Cash flows used in operating activities	$ (4,297)	$ (2,735)	$ (5,762)	$ (4,413)
Cash flows used in financing activities	(772)	(769)	(1,542)	(1,518)
Cash used in investing activities	(321)	(128)	(943)	(128)
Decrease in cash during the period	(5,390)	(3,632)	(8,247)	(6,059)
Cash, end of period	$ 14,193	$ 19,048	$ 14,193	$ 19,048

As at	July 29, 2023	April 29, 2023	January 28, 2023	October 29, 2022
Cash	$ 14,193	$ 19,583	$ 22,440	$ 16,131
Accounts and other receivables	1,675	2,769	3,258	3,937
Prepaid expenses and deposits	5,030	4,992	5,839	6,137
Inventories	18,130	18,184	19,522	29,985
Trade and other payables	$ 6,851	$ 9,057	$ 12,310	$ 14,445

[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.sedarplus.ca 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 second quarter Fiscal 2023 financial results is scheduled for September 12, 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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Source: DAVIDsTEA