DAVIDsTEA

DAVIDsTEA Reports Fourth Quarter and Full Year Fiscal 2023 Financial Results

Fiscal 2023

- Sales of $60.6 million
- Net loss of $13.8 million
- Adjusted EBITDA of negative $5.4 million
- Cash position of $12.6 million
- Company enters into non-binding term sheet for revolving line of credit of up to $12.0 million

Q4 Fiscal 2023

- Sales of $24.4 million
- Net loss of $3.9 million
- Adjusted EBITDA of $0.5 million

MONTREAL, May 2, 2024 - 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 February 3, 2024 ("Fiscal 2023").

"Fiscal 2023 was a challenging year as our online business didn't perform as well as other channels," said Sarah Segal, Chief Executive Officer and Chief Brand Officer, DAVIDsTEA. "Our results proved to be lower than expected, caused primarily by a slower drive to online consumption by consumers as challenging economic conditions negatively impacted spending for the better part of the year. Despite this setback, we are encouraged by mid-single digit growth in brick-and-mortar sales in the fourth quarter and in the first 12 weeks of fiscal 2024 compared to the same periods in the prior year. The trend towards in-store retail shopping at DAVIDsTEA was validated with focus groups and the message was resoundingly clear—consumers want to touch, smell and taste our premium speciality teas in-store as part of the discovery and purchase experience. Our strength in experiential retail and the desire for our customers to return to stores are aligned with our growth strategy, involving the opening of three new locations in the province of Quebec in the fall of 2024 and more than doubling our Canadian store footprint in the next three years."

"On the wholesale front, sales decreased 10.0% in 2023; however, excluding decisions we made to sever relationships with unprofitable accounts, sales improved 10.8% year-over-year. We are optimistic about growing this business in 2024 based on our recently announced partnership with Couche-Tard/Circle K, which will offer Tea-2-Go at more than 1,500 convenience stores across Canada, and our ongoing wholesale expansion of premium loose-leaf tea, matcha and tea sachets into additional accounts in the northeast U.S.," added Ms. Segal.

"Our innovation focus continues in the ready-to-drink market with a trial launch later this month as we look to make tea more accessible to a wide range of consumer tastes. Building on in-store availability of iced tea, hot tea and speciality beverages, we keep developing and testing new ways to make premium tea easy to consume in many formats," concluded Ms. Segal.

"DAVIDsTEA significantly improved operational efficiencies and streamlined its operations in 2023 to adjust to a lower revenue level," said Frank Zitella, President, Chief Financial and Operating Officer, DAVIDsTEA. "Gross profit as a percentage of sales increased more than 500 basis points to 39.9% in 2023 and reached 42.6% in the fourth quarter on the strength of internalizing our fulfillment operations, allowing us to own the overall brand experience for our customers and reduce the unit cost of servicing them. In terms of cost savings, we reduced our SG&A expenses by $8.0 million in 2023 as promised, excluding impairment of property and equipment, intangible assets and right-of-use assets of $3.4 million."

"To help strengthen our short-term cash position, we have entered into a non-binding term sheet with a commercial lender to provide up to $12.0 million in the form of a revolving line of credit secured by the assets of the Company. The final terms and conditions of the revolving line of credit are subject to completion of business and legal due diligence, including final credit committee approval by the lender. We expect to have the requisite flexibility to continue implementing our go-to-market strategy and drive towards profitability. In summary, we are in the process of rebalancing our sales footprint, underpinned by better margins and a lower cost base, and continuing to manage the business to withstand the pivot in consumption patterns," added Mr. Zitella.

Operating Results for the Fourth Quarter of Fiscal 2023

Three Months Ended February 3, 2024 compared to Three Months Ended January 28, 2023

Sales. Sales decreased 22.3% to $24.4 million from $31.4 million in the fourth quarter of Fiscal 2023. Sales in Canada of $20.8 million, representing 85.2% of total revenues, decreased $4.6 million or 18.1% over the prior year quarter. U.S. sales of $3.6 million decreased by $2.4 million or 40.0% 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 in 2023 were impacted by order fulfillment failures in the fourth quarter of Fiscal 2022 that left many consumers dissatisfied with their shopping experience. On June 9, 2023, the Company sent a notice of termination, effective July 23, 2023, to its fulfillment service provider. The Company internalized fulfillment services to its Canadian consumers effective July 24, 2023, and to its U.S. 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 20.5% or $5.6 million to $21.9 million over the prior year quarter. Tea accessories sales decreased by 40.0% or $1.4 million, to $2.1 million over the prior year quarter.

Online sales of $13.2 million decreased by $7.2 million or 35.3% 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 including from order fulfillment challenges experienced in the fourth quarter of Fiscal 2022 from which we have not recovered. E-commerce sales represented 54.1% of sales compared to 65.0% of sales in the prior year quarter.

Sales from the wholesale channel decreased by $0.3 million or 10.0%, to $2.7 million, from $3.0 million in the prior year quarter. Wholesale sales represented 11.1% of sales compared to 9.6% of sales in the prior year quarter.

Brick-and-mortar sales increased by $0.5 million or 6.3%, to $8.5 million, from $8.0 million in the prior year quarter. Brick-and-mortar sales represented 34.8% of sales compared to 25.5% of sales in the prior year quarter.

Gross profit. Despite lower sales, gross profit increased by 20.4% to $10.4 million in the fourth quarter of Fiscal 2023 from the prior year quarter due to a strategic reduction in promotional activity, an improvement in unit product cost and a decrease in unitized freight, shipping and fulfillment cost. Gross profit as a percentage of sales increased to 42.6% for the quarter compared to 27.4% in the prior year quarter.

Selling, general and administration expenses. Selling, general and administration expenses ("SG&A") of $14.2 million increased by $2.3 million or 19.2% compared to the prior year quarter primarily due to increases in online marketing expenses of $1.1 million and impairment of property and equipment, intangible assets and right-of-use assets of $3.4 million. Offsetting these costs were a decrease of one-time employee separation costs and provision for legal claim of $0.8 million, a decrease of $0.7 million in selling supplies and a decrease of $0.3 million in credit card fees. There were further cost reductions in professional fees of $0.2 million and a stock-based compensation of $0.3 million. As a percentage of sales, SG&A increased to 58.4% in the quarter from 38.0% in the prior year quarter. Excluding impairment of assets of $3.4 million, SG&A represented 44.6% of sales in the fourth quarter of Fiscal 2023.

EBITDA and Adjusted EBITDA[1]. EBITDA was negative $2.9 million in the fourth quarter of Fiscal 2023, compared to negative $2.5 million in the prior year quarter, representing a decrease of $0.4 million. Adjusted EBITDA for the fourth quarter of Fiscal 2023 was $0.5 million compared to negative $0.9 million for the same period in the prior year.

Net loss. Net loss was $3.9 million in the fourth quarter of Fiscal 2023 compared to a Net loss of $3.3 million in the prior year quarter. Adjusted net loss was $0.5 million compared to Adjusted net loss of $2.2 million in the prior year quarter.

Fully diluted net loss per common share. Fully diluted net loss per common share was $0.14 compared to a fully diluted net loss of $0.12 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 $0.02 compared to an adjusted fully diluted net loss of $0.08 in the prior year quarter.

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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" in the Company's Management Discussion and Analysis.

Cash on hand. At the end of the fourth quarter of Fiscal 2023, the Company had cash amounting to $12.6 million.

Operating Results for the Fiscal Year Ended February 3, 2024 compared to the Fiscal Year Ended January 28, 2023

Sales. Sales for Fiscal 2023 decreased by 27.0% or $22.4 million to $60.6 million from $83.0 million in Fiscal 2022. Sales in Canada of $51.8 million, representing 85.5% of total revenues, decreased $15.9 million or 23.5% over the prior year. U.S. sales of $8.8 million decreased by $6.5 million or 42.5% over the prior year.

Sales in Fiscal 2023 were impacted by unfavorable economic conditions. We also believe that our e-commerce revenues in Fiscal 2023 were impacted by a post-pandemic levelling of online sales and order fulfillment failures in the fourth quarter of Fiscal 2022 that left many consumers dissatisfied with their shopping experience. 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 U.S. consumers effective October 28, 2023, and as a result we have seen immediate and tangible improvements in the overall customer experience.

Tea and variety box assortment sales of $54.4 million decreased by $18.2 million or 25.1% from the prior year. Tea accessories sales of $5.3 million decreased by $3.7 million or 41.1% from the prior year.

Online sales of $31.3 million decreased by $20.3 million or 39.3% from the prior year 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 fiscal 2022. E-commerce sales represented 51.7% of sales compared to 62.2% of sales in the prior year.

Sales from the wholesale channel decreased by $1.0 million or 10.0%, to $9.0 million, from $10.0 million in the prior year. Wholesale sales represented 14.9% of sales compared to 12.0% of sales in the prior year.

Brick-and-mortar sales decreased by $1.1 million, or 5.1%, to $20.3 million from $21.4 million in the prior year. Brick-and-mortar sales represented 33.5% of sales compared to 25.8% of sales in the prior year.

Gross profit. Gross profit decreased by 14.4% or $4.1 million, to $24.2 million in Fiscal 2023 compared to Fiscal 2022 due primarily to a decline in sales during the year. Gross profit as a percentage of sales increased to 39.9% for Fiscal 2023 from 34.1% in the prior year.

Selling, general and administration expenses. SG&A expenses decreased by $4.7 million or 10.9%, to $38.2 million in Fiscal 2023. Cost reductions in Fiscal 2023 were primarily attributable to the elimination of software implementation costs of $3.6 million, staff compensation reduction of $1.9 million, stock based compensation of $0.7 million, credit card fees of $0.7 million, selling supplies of $0.6 million and professional and consulting fees of $0.6 million. These cost reductions were partially offset by increases in our ongoing IT costs of $0.7 million, impairment of property and equipment, intangible assets and right-of-use assets of $3.4 million and one-time costs of $1.0 million to internalize our fulfillment services. As a percentage of sales, SG&A increased to 62.9% in Fiscal 2023 from 51.6% in the prior year.

EBITDA and Adjusted EBITDA[2]. EBITDA was negative $10.4 million in Fiscal 2023 compared to negative $11.1 million in the prior year representing an increase of $0.7 million over the prior year. Adjusted EBITDA for Fiscal 2023 was negative $5.4 million compared to negative $5.0 million in the prior year. The decrease in Adjusted EBITDA of $0.4 million relates in a large part to the decrease in sales and gross profit as noted above.

Net loss. Net loss was $13.8 million in Fiscal 2023 compared to a Net loss of $14.9 million in the prior year. Adjusted net loss amounted to $9.5 million compared to an Adjusted net loss of $10.2 million in the prior year.

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[2] 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" in the Company's Management Discussion and Analysis.

Fully diluted net loss per common share. Fully diluted net loss per common share was $0.52 in Fiscal 2023 compared to a fully diluted net loss per share of $0.56 in Fiscal 2022. Adjusted fully diluted loss per common share, which is Adjusted net loss on a fully diluted weighted average shares outstanding basis, was $0.36, compared to $0.38 in the prior year.

Liquidity and Capital Resources

As at February 3, 2024, we had $12.6 million of cash held by major Canadian financial institutions.

Working capital was $19.7 million as at February 3, 2024 compared to $30.8 million as at January 28, 2023. The decrease in working capital is substantially explained by a decrease in cash and inventories, offset by a decrease in Trade and other payables.

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 amounted to $2.2 million in Fiscal 2023 (Fiscal 2022 - $0.1 million), which increase was attributed to leasehold improvements to two of our retail stores and the launch of new mobile application in the fourth quarter of Fiscal 2023.

As at February 3, 2024, 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 $8.6 million, net of $0.4 million of advances (Fiscal 2022 - $6.7 million, net of $0.8 million of advances) which are expected to be discharged within 12 months. During the year, the Company also signed several new leases commencing between August 2024 and October 2024 and with maturity dates between 2029 and 2034. Annual minimum lease commitments over the next five years is estimated at $2.1 million with the total minimum lease obligation amounting to $12.1 million.

As at May 1, 2024, the Company has $7.9 million of cash held by major Canadian financial institutions, a decrease of $4.7 million from the amount of cash at the end of Fiscal 2023. The proposed non-binding revolving line of credit, combined with rigorous control of expenses, is intended to help strengthen the Company's short-term cash position.

The Company's ability to continue as a going concern is dependent on its ability to stabilize its business from unfavourable revenue decline and secure third-party financing to support its operations. There is; however, no assurance that such events will occur and as a result, this indicates the existence of a material uncertainty that may cast a significant doubt on the Company's ability to continue as a going concern.

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

	For the three-months ended		For the year ended	
	February 3, 2024	January 28, 2023	February 3, 2024	January 28, 2023
Sales	$ 24,351	$ 31,356	$ 60,643	$ 83,026
Cost of sales	13,987	22,749	36,419	54,714
Gross profit	10,364	8,607	24,224	28,312
Selling, general and administration expenses	10,844	11,929	34,794	42,607
Impairment	3,379	—	3,379	257
Results from operating activities	(3,859)	(3,322)	(13,949)	(14,552)
Finance costs	147	198	649	730
Finance income	(143)	(178)	(771)	(414)
Net loss	$ (3,863)	$ (3,342)	$ (13,827)	$ (14,868)
EBITDA[1]	$ (2,948)	$ (2,471)	$ (10,395)	$ (11,057)
Adjusted EBITDA[1]	519	(932)	(5,427)	(4,976)
Adjusted net loss [1]	(485)	(2,153)	(9,534)	(10,200)
Adjusted fully diluted loss per common share[1]	$ (0.02)	$ (0.08)	$ (0.36)	$ (0.38)
Gross profit as a percentage of sales	42.6%	27.4%	39.9%	34.1%
SG&A expenses as a percentage of sales	44.5%	38.0%	57.4%	51.3%
Cash flows provided by (used in) operating activities	$ 1,773	$ 7,065	$ (4,613)	$ 488
Cash flows used in financing activities	(743)	(754)	(3,073)	(3,026)
Cash used in investing activities	(162)	—	(2,154)	(129)
Decrease in cash during the period	867	6,311	(9,840)	(2,667)
Cash, end of period	$ 12,600	$ 22,440	$ 12,600	$ 22,440

As at	February 3, 2024	October 28, 2023	July 29, 2023	April 29, 2023
Cash	$ 12,600	$ 11,734	$ 14,193	$ 19,583
Accounts and other receivables	1,800	2,420	1,675	2,769
Prepaid expenses and deposits	5,877	6,042	5,030	4,992
Inventories	15,658	18,106	18,130	18,184
Trade and other payables	$ 8,662	$ 10,722	$ 6,851	$ 9,057

[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 Discussion and Analysis for a reconciliation to IFRS financial measures.

Note

This release should be read in conjunction with the Company's Management Discussion and Analysis, which is filed by the Company with the Canadian securities regulatory authorities on SEDAR+ at 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 applicable Canadian securities law. 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, and our results of operations, financial condition, liquidity and prospects. In particular, the proposed revolving line of credit with a commercial lender referred to in this press release is subject to numerous conditions, including completion of business and legal due diligence and final credit committee approval by the lender, negotiating and signing satisfactory loan documentation, and other terms and conditions customary for loan facilities of this type. Accordingly, there can be no assurance that the Company will enter into the revolving line of credit on the timetable or on the terms and conditions contemplated, or at all. Failure by the Company to enter into the proposed revolving line of credit or other loan facility on a timely basis could have a material adverse effect on the Company's cash position and liquidity. As well, the Company can give no assurance that it will complete the opening of three new stores in the province of Quebec in the fall of 2024 or more than double its Canadian store footprint in the next three years.

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 Discussion and Analysis of Financial Condition and Results of Operations for our fiscal year ended February 4, 2024, filed with the Autorité des marchés financiers, on May 2, 2024 which could materially affect our business, financial condition or future results.

Conference Call Information

A conference call to discuss the fourth quarter Fiscal 2023 financial results is scheduled for May 2, 2024, 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 4,000 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.

Contact information

MBC Capital Markets Advisors
Pierre Boucher
514-731-0000

DAVIDsTEA Investor relations
investors@davidstea.com