DAVIDsTEA Reports Financial Results for First Quarter of Fiscal 2024

- Sales of $13.4 million
- Net loss of $2.6 million
- Adjusted EBITDA[1] of negative $0.8 million
- Launches cold brew ready-to-drink sparkling iced tea collection

MONTREAL, June 18, 2024 - 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 May 4, 2024.

"Despite tough economic conditions reducing overall demand, we are committed to turning our business around," said Sarah Segal, Chief Executive Officer and Chief Brand Officer, DAVIDsTEA. "Brick-and-mortar sales grew by mid-single digits for the second consecutive quarter in Q1. Our specialty teas and brand equity resonate strongly with consumers, who want a sensory experience—smelling and sampling our teas—before buying. Therefore, we are focused on in-store growth, with two new stores opening this fall and more expected to follow."

"We're encouraged by our growing wholesale distribution network and we've signed agreements with distributors who have access to over 31,000 grocery stores in the US market. Additionally, we are optimistic about the recent launch of our cold brew sparkling iced tea collection, aimed at the multi-billion-dollar ready-to-drink market in North America, which is expected to boost online and in-store sales. Altogether, these growth drivers should increase revenue and lead towards profitability," Ms. Segal added.

"The 6.1% sales decrease to $13.4 million in Q1 2024 reflects an unfavourable economic environment affecting online and wholesale revenues, while in-store sales grew year-over-year on the strength of higher average ticket values," said Frank Zitella, President, Chief Financial and Operating Officer, DAVIDsTEA. "We saw margin improvements in Q1 with gross profit as a percentage of sales rising 300 basis points year-over-year to 43.3% due to lower freight, shipping and fulfillment costs per unit. Our cash position amounted to $8.8 million at quarter-end. We have terminated negotiations with a commercial lender for the previously announced revolving line of credit. Consequently, we will be more aggressively pursuing cost-reduction and working capital strategies, while sustaining growth opportunities for upcoming quarters."

Operating Results for the First Quarter of Fiscal 2024

Three Months Ended May 4, 2024 compared to Three Months Ended April 29, 2023

Sales. Sales decreased 6.1% to $13.4 million from $14.3 million in the first quarter of fiscal 2024. Sales in Canada of $11.7 million, representing 87.3% of total revenues, dropped $0.5 million or 3.8% over the prior year quarter. U.S. sales of $1.7 million declined by $0.4 million or 19.5% over the prior year quarter.

Sales were negatively impacted by unfavorable economic conditions that continued to dampen overall consumer demand. In our online sales channel, notwithstanding an increase in overall transactions against the prior year quarter, the decrease in average ticket value resulted in an overall reduction in revenue. The inverse was true in our retail sales channel where fewer transactions were offset by higher ticket values over the prior year quarter.

The Company has taken ownership of the overall brand experience after in-sourcing order fulfilment since June 2023 and is attempting to recapture and retain consumers with improved order fulfillment capabilities and an enhanced customer experience.

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[1] For a reconciliation of EBITDA, Adjusted EBITDA and Adjusted fully diluted (loss) earnings per share to the most directly comparable measure calculated in accordance with "IFRS", see "Non-IFRS financial measures and ratios", in this MD&A.

Tea and variety box assortment sales decreased by 4.7%, or $0.6 million, to $12.2 million over the prior year quarter. Tea accessories sales decreased by 27.5%, or $0.4 million, to $1.0 million over the prior year quarter.

Online sales of $6.7 million decreased by $0.9 million, or 11.9%, from the prior year quarter as we continued to see a levelling out of pandemic-fueled online sales in addition to lower average ticket values. E-commerce sales represented 50.2% of sales compared to 53.4% of sales in the prior year quarter.

Sales from the wholesale channel decreased by $0.2 million, or 9.7%, to $2.2 million, from $2.4 million in the prior year quarter. Wholesale sales represented 16.1% of sales compared to 16.8% of sales in the prior year quarter.

Brick-and-mortar sales increased by $0.2 million, or 6.2%, to $4.5 million from $4.3 million for the same period in the prior year. Brick-and-mortar sales represented 33.7% of sales compared to 29.8% of sales in the prior year quarter.

Gross profit. Gross profit increased by 0.8% to $5.8 million in the first quarter of fiscal 2024 from the prior year quarter. Despite lower sales, gross profit as a percentage of sales increased slightly to 43.3% for the quarter compared to 40.3% in the prior year quarter due to a decrease in unitized freight, shipping and fulfillment costs. At a segment level, Gross profit was 41.8% and 54.0% in the quarter compared to 40.1% and 41.7% in the prior year quarter in Canada and U.S., respectively.

Selling, general and administration expenses. Selling, general and administration expenses ("SG&A") of $8.4 million increased by $0.6 million, or 7.6% compared to the prior year quarter. An increase in the impairment of property and equipment and in professional fees of $0.5 million, and $0.5 million, respectively, was partially offset by a reduction of depreciation and amortization of $0.2 million and stock-based compensation of $0.2 million. As a percentage of sales, SG&A expenses increased to 62.9% in the first quarter from 54.9% in the prior year quarter due to a deleveraging of fixed costs as a result of decreased sales this quarter.

EBITDA[1] and Adjusted EBITDA[1]. EBITDA was negative $2.0 million in the quarter ended May 4, 2024, compared to negative $1.2 million in the prior year quarter, representing a decrease of $0.8 million. Adjusted EBITDA was negative $0.8 million for the quarter ended May 4, 2024, compared to $0.9 million in the prior year quarter

Net loss. Net loss totaled $2.6 million in the quarter ended May 4, 2024, compared to a net loss of $2.0 million in the prior year quarter. Adjusted net loss totaled $1.6 million in the first quarter compared to Adjusted net loss of $1.9 million in the prior year quarter.

Fully diluted net loss per share. Fully diluted net loss per common share amounted to $0.10 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 share[1], which is Adjusted net loss on a fully diluted weighted average shares outstanding basis, was $0.06 compared to an Adjusted fully diluted net loss of $0.07 in the prior year quarter.

LIQUIDITY AND CAPITAL RESOURCES

As at May 4, 2024, the Company had $8.8 million of cash held by major Canadian financial institutions.

The Company's primary source of liquidity is cash on hand and cashflow generated from operations as it does not have access to third-party financing to fund its activities and to meet any future financial obligations. 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 quarter.

Capital expenditures of $461 in the first quarter of fiscal 2024, relating to store leasehold improvements of $137 and computer hardware purchases of $324, were financially impaired.

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[1] For a reconciliation of EBITDA, Adjusted EBITDA and Adjusted fully diluted (loss) earnings per share to the most directly comparable measure calculated in accordance with "IFRS", see "Non-IFRS financial measures and ratios", in this MD&A.

For the quarter ended May 4, 2024, the Company reported a net loss of $2.6 million and used $2.6 million of cash in its operating activities. Also, during the quarter, the Company's cash balance decreased by $3.8 million to $8.8 million.

As at May 4, 2024, the Company had financial commitments in connection with the purchase of goods and services that are enforceable and legally binding, amounting to $9.4 million, net of $0.7 million of advances (February 3, 2024 - $6.7 million, net of $0.8 million of advances) which are expected to be discharged within 12 months.

The Company's ability to continue as a going concern is dependent on its ability to stabilize its business from unfavourable revenue declines, reduce its costs so that at a minimum, they are commensurate with revenues, and manage its working capital. There is 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.

Cash Flow

A summary of our cash flows used in operating, investing, and financing activities is presented in the following table:

	For the three-months ended			
	May 4, 2024 $	**April 29, 2023 $**	**$ Change**	**% Change**
Cash flows provided by (used in):				
Operating activities	**(2,587)**	(1,465)	(1,122)	(76.6)%
Financing activities	**(780)**	(770)	(10)	(1.3)%
Investing activities	**(461)**	(622)	161	25.9%
Decrease in cash	**(3,828)**	(2,857)	(971)	(34.0)%

Three-months ended May 4, 2024 compared to three-months ended April 29, 2023

Cash flows used in operating activities. Net cash used in operating activities amounted to $2.6 million for the quarter ended May 4, 2024, representing a decrease of $1.1 million from the prior year quarter. The decrease is mainly due to an increase in Accounts receivable, Inventory, and Prepaids and Deposits balances, partially offset by favourable changes in Trade and other payables over the prior year quarter.

Cash flows used in financing activities. Net cash flows used in financing activities of $780 during the quarter ended May 4, 2024 represented an increase in lease payments of $10 compared to the prior year quarter.

Cash flows used in investing activities. Net cash flows used in investing activities of $461 for the quarter ended May 4, 2024 are related to store leasehold improvements of $137 and computer hardware of $324 compared to $0.6 million in the prior year quarter related to store leasehold improvements of $0.5 million, as well as furniture and equipment and computer software of $0.1 million.

Condensed Consolidated Financial Data

(Canadian dollars, in thousands, except per share information)

	For the three-months ended May 4, 2024	For the three-months ended April 29, 2023
Sales	$ 13,435	$ 14,313
Cost of sales	7,615	8,541
Gross profit	5,820	5,772
Selling, general and administration expenses	8,447	7,853
Results from operating activities	(2,627)	(2,081)
Finance costs	146	182
Finance income	(124)	(280)
Net loss	$ (2,649)	$ (1,983)
Sales - by country		
Canada	$ 11,729	$ 12,193
USA	1,706	2,120
Sales - by channel		
Online	6,740	7,647
Retail	4,528	4,265
Wholesale	$ 2,167	$ 2,401
EBITDA[1]	$ (1,980)	$ (1,230)
Adjusted EBITDA[1]	(820)	(887)
Adjusted net loss [1]	(1,577)	(1,883)
Adjusted fully diluted loss per common share[1]	$ (0.06)	$ (0.07)
Gross profit as a percentage of sales	43.3%	40.3%
SG&A expenses as a percentage of sales	62.9%	54.9%
Cash flows used in operating activities	$ (2,587)	$ (1,465)
Cash flows used in financing activities	(780)	(770)
Cash used in investing activities	(461)	(622)
Decrease in cash during the period	(3,828)	(2,857)
Cash, end of period	$ 8,772	$ 19,583

As at	May 4, 2024	February 3, 2024
Cash	$ 8,772	$ 12,600
Accounts and other receivables	1,551	1,800
Prepaid expenses and deposits	5,687	5,877
Inventories	17,094	15,658
Trade and other payables	$ 8,935	$ 8,662

[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” 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. Failure by the Company to secure a 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 two 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 first quarter Fiscal 2024 financial results is scheduled for June 18, 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 in Canada and 170 grocery stores in the United States, as well as 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. The team's passion for and knowledge of tea permeates the Company's 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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