DAVIDsTEA

DAVIDsTEA Reports Financial Results for Third Quarter of Fiscal 2023

- Sales of $12.1 million compared to $16.2 million in third quarter of 2022
- SG&A expenses managed downwards 19.3% year-over-year to $8.3 million
- Net loss amounted to $3.7 million compared to $4.7 million in third quarter of 2022
- Cash and working capital positions totaled $11.7 million and $20.1 million, respectively
- Start of U.S. wholesale market expansion with release of four tea sachet flavours at 150 Stop & Shop supermarkets

MONTREAL, December 12, 2023 - DAVIDsTEA Inc. (TSX-Venture: DTEA) ("DAVIDsTEA" or the "Company"), a leading tea merchant in North America, announced today its third quarter results for the period ended October 28, 2023.

"Although sales remained muted in the third quarter of 2023 due to a persistent challenging economic environment, we have launched a series of go-to-market initiatives and announced key marketing hires to drive revenue growth," said Sarah Segal, Chief Executive Officer and Chief Brand Officer, DAVIDsTEA. "Aligned with our growth strategy, we penetrated the U.S. wholesale market with the release of four flavours of premium tea sachets at 150 Stop & Shop supermarket stores in the northeastern United States; we expanded our footprint in the Canadian wholesale market to more than 4,000 doors by growing our presence with existing partners and adding new accounts; and we appointed a Vice-President of Marketing and a Chief Digital Officer to elevate our brand and optimize a frictionless customer experience. All these value creation activities, combined with ongoing cost-reduction efforts, are designed to accelerate the Company's return to profitable growth."

"Despite difficult market conditions in the third quarter, we are encouraged by the impact of our cost-containment plan as SG&A expenses were contained and managed downwards 19.3% year-over-year," said Frank Zitella, President, Chief Financial and Operating Officer, DAVIDsTEA. "Based on a $7.0 million reduction in SG&A expenses year to date, we remain on track to achieve our cost-cutting target of $8 million to $10 million for the fiscal year. In addition, we have a solid working capital position to execute our multiple go-to-market initiatives and, ultimately, increase revenue and profitability."

Operating Results for the Third Quarter of Fiscal 2023

Three Months Ended October 28, 2023, compared to Three Months Ended October 29, 2022

Sales. Sales for the third quarter of Fiscal 2023 decreased by $4.0 million, or 24.9%, to $12.1 million. Sales in Canada of $10.6 million, representing 86.9% of total revenues, dropped $2.3 million or 18.2% over the prior year quarter. U.S. sales of $1.6 million declined by $1.7 million or 51.4% 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 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 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 21.7% or $3.1 million to $11.0 million over the prior year quarter. Tea accessories sales decreased by 54.4% or $1.0 million, to $0.8 million over the prior year quarter.

Online sales of $5.6 million decreased by $4.6 million or 45.1% 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 46.3% of sales compared to 63.0% of sales in the prior year quarter.

Sales from the wholesale channel increased by $0.9 million or 56.3%, to $2.5 million, from $1.6 million in the prior year quarter. Wholesale sales represented 20.7% of sales compared to 9.9% of sales in the prior year quarter.

Brick-and-mortar sales declined by $0.4 million, or 9.1%, to $4.0 million from $4.4 million for the same period in the prior year. Brick-and-mortar sales represented 33.0% of sales compared to 27.2% of sales in the prior year quarter.

Gross profit. Gross profit dropped by 18.8% to $4.6 million in the third quarter of Fiscal 2023 from the prior year quarter due to lower sales. Gross profit as a percentage of sales increased slightly to 37.9% for the quarter compared to 35.1% in the prior year quarter. At a segment level, Gross profit was 36.8% and 45.1% in the quarter compared to 33.7% and 40.2% in the prior year quarter in Canada and U.S., respectively.

Selling, general and administration expenses. Selling, general and administration expenses ("SG&A") of $8.3 million were managed downwards by $2.0 million, or 19.3% 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 $1.1 million, reduction of staff compensation costs of $0.7 million, a reduction in impairment of property and equipment and right-of-use asset of $0.3 million and reduction of professional and consulting fees of $0.3 million, partially offset by costs related to internalizing fulfillment services of $0.2 million and ongoing IT maintenance costs of $0.1 million. As a percentage of sales, SG&A increased to 68.5% in the third quarter from 63.8% 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 $2.8 million in the quarter ended October 28, 2023, compared to negative $3.8 million in the prior year quarter. Adjusted EBITDA for the quarter ended October 28, 2023, was negative $2.5 million compared to negative $2.0 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 $3.7 million in the quarter ended October 28, 2023, compared to a net loss of $4.7 million in the prior year quarter. Adjusted net loss was $3.5 million in the third quarter compared to Adjusted net loss of $3.3 million in the prior year quarter.

Fully diluted net loss per share. Fully diluted net loss per common share amounted to $0.14 in the third 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 $0.13 compared to an Adjusted fully diluted net loss of $0.12 in the prior year quarter.

Liquidity and Capital Resources

As at October 28, 2023, the Company had $11.7 million of cash held by major Canadian financial institutions.

Working capital was $20.1 million as at October 28, 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 $1,048 in the third quarter of Fiscal 2023 include furniture and equipment of $18, store leasehold improvements of $322, computer hardware of $286 and intangible assets of $422 compared to $nil additions in prior year quarter related to furniture and equipment.

As at October 28, 2023, the Company had financial commitments in connection with the purchase of goods and services that are enforceable and legally binding, amounting to $7.8 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.

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

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

	For the three-months ended		For the nine-months ended	
	October 28, 2023	October 29, 2022 (Restated)	October 28, 2023	October 29, 2022 (Restated)
Sales	$ 12,145	$ 16,176	$ 36,292	$ 51,670
Cost of sales	7,539	10,506	22,428	31,965
Gross profit	4,606	5,670	13,864	19,705
Selling, general and administration expenses	8,325	10,313	23,955	30,935
Results from operating activities	(3,719)	(4,643)	(10,091)	(11,230)
Finance costs	143	194	502	532
Finance income	(132)	(120)	(628)	(236)
Net loss	$ (3,730)	$ (4,717)	$ (9,965)	$ (11,526)
EBITDA[1]	$ (2,817)	$ (3,759)	$ (7,447)	$ (8,586)
Adjusted EBITDA[1]	(2,467)	(2,004)	(5,947)	(4,043)
Adjusted net loss [1]	(3,546)	(3,317)	(9,051)	(8,046)
Adjusted fully diluted loss per common share[1]	$ (0.13)	$ (0.12)	$ (0.34)	$ (0.30)
Gross profit as a percentage of sales	37.9%	35.1%	38.2%	38.1%
SG&A expenses as a percentage of sales	68.5%	63.8%	66.0%	59.9%
Cash flows used in operating activities	$ (622)	$ (2,164)	$ (6,384)	$ (6,577)
Cash flows used in financing activities	(789)	(753)	(2,330)	(2,271)
Cash used in investing activities	(1,048)	—	(1,992)	(128)
Decrease in cash during the period	(2,459)	(2,917)	(10,706)	(8,976)
Cash, end of period	$ 11,734	$ 16,131	$ 11,734	$ 16,131

As at	October 28, 2023	July 29, 2023	April 29, 2023	January 28, 2023
Cash	$ 11,734	$ 14,193	$ 19,583	$ 22,440
Accounts and other receivables	2,420	1,675	2,769	3,258
Prepaid expenses and deposits	6,042	5,030	4,992	5,839
Inventories	18,106	18,130	18,184	19,522
Trade and other payables	$ 10,722	$ 6,851	$ 9,057	$ 12,310

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[1] Please refer to "Use of Non-IFRS Financial Measures and Ratios" 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 DAVIDsTEA Management's Discussion and Analysis for a reconciliation to IFRS financial measures.

Note

This release should be read in conjunction with the DAVIDsTEA Management's Discussion and Analysis, which is filed 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.

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.

Neither the TSX Venture Exchange nor its Regulation Services Provider accepts responsibility for the adequacy or accuracy of this release.

Conference Call Information

A conference call to discuss the third quarter results for Fiscal 2023 is scheduled for December 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 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.DAVIDsTEA 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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