



# Roots

**Annual Report 2018**

## WHERE WE CAME FROM



### OUR ROOTS

Founded by Michael Budman and Don Green, two city kids who met at summer camp in Ontario's Algonquin Park where they first fell in love with the ideals and beauty of Canada.

They created Roots in 1973, inspired by the experience of traveling from their city homes into the heart of Canada's wilderness.

Starting from a little cabin in Algonquin Park, Roots has grown to become a global brand that embodies unmistakable style and uncompromising comfort.

"It was a twelve-hour trip by train, bus and boat to Camp Tamakwa in the heart of Canada's wilderness that would change everything." -FOUNDERS, BUDMAN AND GREEN

### OUR NAME

#### *Why Roots?*

Your feet really are your roots, as they're connected to the ground like a tree. With our early beginnings in footwear, this was the insight that led us to adopt the name Roots.

Since our founding, just as we've grown to offer so much more than footwear, Roots as a name has grown to mean so much more to us, and to our consumers.

Everyone has roots. We believe in the importance of where you come from – your origins, your history, your story – which are all distinctly your own. We celebrate what makes us all unique.



## WHERE WE CAME FROM



### OUR SYMBOL

#### *The Beaver*

While we value individuality and a strongly grounded sense of self, we also value togetherness – being a part of something bigger than ourselves.

The beaver is emblematic of qualities we admire in true community-builders: they are resourceful and industrious. We believe in always working to make our communities a better place.

The beaver is a national emblem of Canada, but it is also the time-honoured symbol for Camp Tamakwa in Algonquin Park where our Founders, Michael Budman and Don Green, spent their childhood summers embracing Canada.



'ROOTS BEAVER' PAINTING BY HEATHER COOPER, 1976.

## WHERE WE ARE



### WHO WE ARE

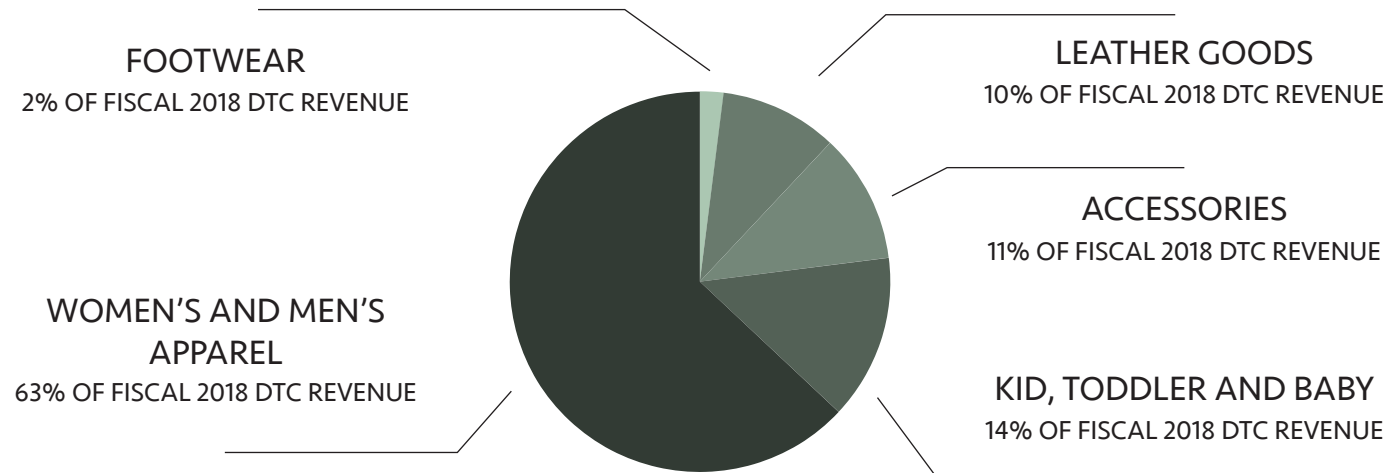
*We are a premium outdoor lifestyle brand.*

Roots unites the best of cabin and city through unmistakable style built with uncompromising comfort and quality.

### WHAT OUR BRAND STANDS FOR



### WHAT WE MAKE



\* DTC = Direct to Consumer



## WHERE WE ARE



### CREATING LEGENDARY FEEL

We are constantly pushing ourselves to make the best products that feel unique yet familiar.

The elements that we combine in our global product range are:



### OUR CONSUMER

Our consumers are open-minded and down-to-earth, moving freely through life's everyday adventures with comfort and style. They love city life, but feel deeply connected to nature and life outside, embracing a seemingly effortless look that is at home downtown or out-of-town.

### SEAMLESS EXPERIENCES

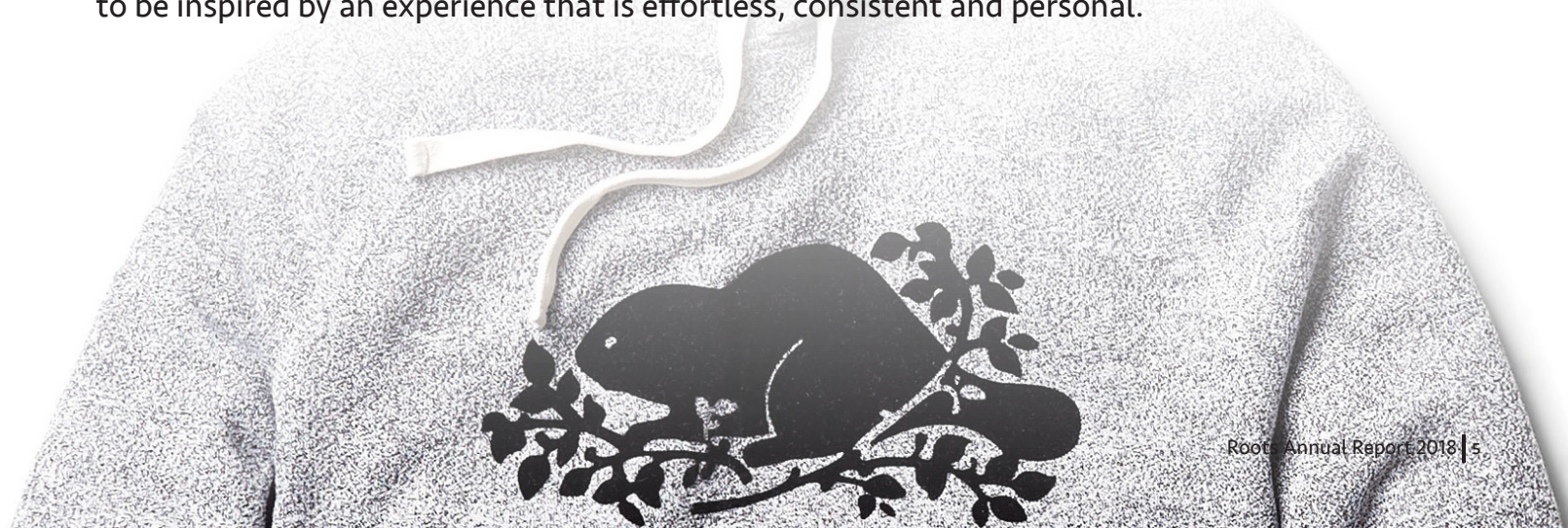
#### *Connecting to Roots from Any Place*

Bringing together cabin comforts and city conveniences, we create spaces that feel like home.

We know what matters to our consumers and what makes them feel comfortable. They are on-the-go, travel the world and want the convenience to connect in-person, as well as on the latest device with ease.

We create innovative, captivating experiences, both physical and digital.

Our community can engage with Roots – anytime, anywhere – to find exactly what they want, or to be inspired by an experience that is effortless, consistent and personal.





### ROOTS INTERNATIONAL

#### *Beyond Canada*

Our birthplace may have been in Algonquin Park, but we have united the best of cabin and city globally.

We have helped connect Canada to the rest of the world by successfully exporting Canadian culture internationally.

- Canada – 114 Stores
- US – 7 Stores
- Taiwan – 117 Stores
- China – 37 Stores
- eCommerce – Shipped to over 50 Countries

#### **Fiscal 2018 Financial Results Summary**

- Total Sales - \$329.0 Million
- DTC Sales - \$283.9 Million
- Partners and Others Sales - \$45.2 Million
- DTC Gross Margin – 61.2%
- Adjusted EBITDA – \$41.9 Million
- Earnings per Share - \$0.48

#### **Fiscal 2018 Operational Result Summary**

- Double-digit eCommerce growth
- 6 Canadian Corporate Retail Store Openings
- 4 United States Corporate Retail Store Openings
- 10 Renovations and Relocations
- 21 Partner-operated International Store Openings



XIMENDING ROOTS STORE, TAIPEI, TAIWAN

## WHERE WE ARE GOING



### OUR VISION

To inspire the world to experience everyday adventures with comfort and style

We are a premium outdoor lifestyle brand

- Function and Comfort Meets Style
- Heritage Brand
- Outdoor and Trend Inspired
- Premium Quality
- Moderate to Premium Price Point

### LIFESTYLE CITY

PREMIUM (\$\$\$)

- Style First
- Fashion Leaders
- Trend Setting
- Moderate to Premium Quality
- Premium Price Point

MASS (\$)

- Style First
- Fast Fashion
- Trend Inspired
- Low to Moderate Quality
- Low Price Point

### OUTDOOR CABIN

PREMIUM (\$\$\$)

- Function First
- Innovation Leaders
- Outdoor Tested
- Moderate to Premium Quality
- Premium Price Point

MASS (\$)

- Function First
- Innovation Adopters
- Outdoor Inspired
- Moderate Quality
- Low Price Point

## WHERE WE ARE GOING



### Driving Long-term Growth

- 1 – Leverage operational investments made or underway
- 2 – Pursue continued growth in Canada
- 3 – Strategically grow presence in the U.S.
- 4 – Expand in international markets via partners
- 5 – Deepen offering in leather and footwear

Continue to strategically invest to drive long-term growth

### KEY INVESTMENTS

Enhance Consumer Experience  
expanded retail footprint renovations, relocations and expansions of high-performing stores enhanced eCommerce platform  
Increase Investment in Marketing  
building a global brand driving store and online consumer interest and traffic  
Move into New Distribution Centre  
store and eCommerce fulfillment to multiple markets expanded capacity

### Fiscal 2019 Financial Target Range

Sales (in \$ millions) - Sales +9-14%  
Adjusted EBITDA (in \$ millions) - EBITDA +10-19%  
Adjusted Net Income (in \$ millions) - Net Income +0-20%

\* DTC – Direct to Consumer

\*EBITDA - earnings before interest, taxes, depreciation, and amortization.

<b>Summary of Financial Performance</b>					
CAD \$000s (except per share data)	Q4 2018	Q4 2017	F2018	F2017	F2016
<b>Statement of Net Income Data:</b>					
Sales	130,823	130,021	329,028	326,057	281,886
Gross Profit	78,345	75,766	188,490	181,998	147,153
Gross Margin	59.90%	58.30%	57.30%	55.80%	52.20%
Selling, general and administrative expenses	51,776	45,878	166,790	151,867	129,490
Income before interest expense and income taxes expense (recovery)	26,569	29,888	21,700	30,131	17,663
Net income (loss)	18,276	20,861	11,400	17,501	8,185
Basic earnings per share	\$0.43	\$0.50	\$0.27	\$0.42	\$0.19
Diluted earnings (loss) per share	\$0.43	\$0.49	\$0.27	\$0.41	\$0.19

<b>Cash Flows</b>				
CAD \$000s	Q4 2018	Q4 2017	F2018	F2017
Net cash generated from operating activities	46,832	43,790	19,364	29,652
Net cash generated from (used in) financing activities	(36,327)	(33,577)	241	(40,856)
Net cash used in investing activities	(8,869)	(3,842)	(31,832)	(12,244)
Change in cash and bank indebtedness	1,636	6,371	(12,227)	(23,448)

<b>Summary of Financial Performance</b>				
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<b>Selected Consolidated Financial Information</b>				
CAD \$000s	Q4 2018	Q4 2017	F2018	F2017
Sales	130,823	130,021	329,028	326,057
Cost of goods sold	52,478	54,255	140,538	144,059
Gross Profit	78,345	75,766	188,490	181,998
Selling, general and administrative expenses	51,776	45,878	166,790	151,867
Income before interest expense and income taxes expense	26,569	29,888	21,700	30,131
Interest expense	1,435	1,197	5,171	5,728
Income before taxes	25,134	28,691	16,529	24,403
Income taxes expense	6,858	7,830	5,129	6,902
Net income	18,276	20,861	11,400	17,501
Basic earnings per Share	\$0.43	\$0.50	\$0.27	\$0.42

<b>Key Operational Developments</b>			
CAD \$000s (except per Share amounts)	As at February 2, 2019	As at February 3, 2018	As at January 28, 2017
Current assets	64,960	49,216	64,458
Non-current assets	316,154	293,635	292,985
Current liabilities	51,627	35,759	31,374
Non-current liabilities	114,783	108,119	124,885
Distributions declared per Share	-	\$0.48	-

<b>Sales</b>						
CAD \$000s	Q4 2018	Q4 2017	% Change	F2018	F2017	% Change
DTC	120,678	119,805	0.7	283,856	284,131	(0.1)
Partners and Other	10,145	10,216	(0.7)	45,172	41,926	7.7
Total Sales	130,823	130,021	0.6	329,028	326,057	0.9



## A Word from Erol



*“Fiscal 2018 was an incredibly busy year for Roots, with the team undertaking a record number of projects to better position Roots as an iconic brand on the global stage.”*

*- EROL UZUMERI, CHAIRMAN*

### Fellow Shareholders:

Fiscal 2018 was an incredibly busy year for Roots, with the team undertaking a record number of projects to better position Roots as an iconic brand on the global stage. Roots increased and upgraded its overall store square footage in Canada with a focus on premium mall-based and street front locations, while simultaneously opening new stores in the U.S. and growing the number of partner-operated stores in Taiwan and China. The Company also continued to enhance its omni-channel experience by adding more functionality and capabilities. Whether they are shopping in-person, on the latest device, or a combination of the two, consumers can engage with Roots in an even more seamless and personal way.

With a rapidly growing eCommerce channel, Roots commenced the transition to its new owned and operated integrated distribution centre. The new distribution centre brings together store and eCommerce fulfillment to support sales growth across Canada and the U.S. and helps improve distribution costs.

## A Word from Erol



Roots also established many new brand relationships during the year. Most notable was the release of a collaboration with Toronto-born multi-platinum singer/songwriter, Shawn Mendes. This builds on the long list of friends of the brand that has grown to include Heads of State, U.S. Presidents, celebrities, athletes and musicians over the Company's more than 45-year history.

As business activity for the year was high, so was board engagement. During Fiscal 2018, we moved through our first full business cycle as a public company board, leveraging the experience of our eight directors to support management in executing the Company's long-term strategy. However, while Fiscal 2018 sales were the highest in the Company's history, results fell below expectations. The Board continues to work closely with management and remains confident in their ability to successfully execute on the strategic plan. Collectively, the Board and management decided to take a more conservative approach to expansion in Fiscal 2019, but we still firmly believe in the long-term global growth prospects for the business. The Board remains committed to maintaining strong corporate governance, which, we believe, builds the foundation for long-term shareholder confidence. We are continuously benchmarking ourselves against governance best practices, which, among other things in Fiscal 2018, saw us introduce a formal diversity policy, implement a structured board self-evaluation process and streamline the Company's whistleblower process. We also continue to proactively ensure that we have the appropriate structure and processes to facilitate independent and effective oversight of strategic growth initiatives, capital deployment, operations, and risk management practices.

To conclude, I would like to thank Michael Budman and Don Green, the Roots Founders, for their friendship and guidance. I would also like to extend thanks to my fellow directors for their commitment and insight. In addition, on behalf of the Board, I would like to thank Roots employees for their continued hard work, as well as you, our valued shareholders, for your support.

Sincerely,

Erol Uzumeri  
Chairman

## Thoughts from Jim



*“We are an iconic brand with a more than four-decade history of delighting our consumers with great products and engaging experiences. We are confident that we are on track to build on our record revenue in 2018 and deliver on our Fiscal 2019 financial targets.”*

*- JIM GABEL, PRESIDENT & CEO*

### Fellow Shareholders:

Fiscal 2018 was our first full year as a public company, a big transition for a 45-year-old brand and business. We made significant operational progress during the year, completing a record number of retail projects in a 12-month period. We also delivered both the highest sales and direct-to-consumer gross margins in the Company’s history. However, we faced some commercial headwinds. As a result, our overall financial performance fell below our expectations. That said, I am confident that the projects we completed have strengthened our position for the long-term, and where we faced challenges, we are already applying key learnings to drive improved results going forward.

### OMNI-CHANNEL FOOTPRINT

As a seamless omni-channel retailer in Canada and the U.S., we are always working to create innovative and captivating experiences, both physical and digital. During Fiscal 2018, we continued to grow our store footprint while also enhancing our eCommerce platform, eCommerce was, again, the fastest growing part of the business.

## Thoughts from Jim



In Canada, we opened six new stores during the year. We also decided not to renew leases for eight stores as we continue to focus on optimizing our overall Canadian retail footprint. In addition, we worked to capitalize on high-performing stores, renovating four and relocating and expanding six. At year-end, we had a total of 114 stores in Canada.

In the U.S., in addition to our ability to ship to 50 states, we expanded our physical store presence into two new markets: Boston and Washington D.C., opening two stores in each city. We ended the year with a total of seven locations in the U.S., with plans to open a store in Chicago in late spring 2019. We are still in the early stages of our U.S. expansion, and as we work to build further brand awareness in our focus markets, we expect to see our U.S. business build momentum.

### BEYOND NORTH AMERICA

On the international front, we saw our brand gain further strength in our partner-operated markets. During the year, our longstanding international partner opened 10 new locations in Taiwan and 11 in China to end the year with a total of 117 stores in Taiwan and 37 in China. We are excited to continue to work with our partner to realize our full potential in existing as well as new Asian markets. We have already seen great progress with the opening of a new store in Hong Kong’s premier shopping centre, Harbour City, in April 2019, and Roots launch on Zalora.com, the leading name in online fashion shopping in Hong Kong.

### GLOBAL PRODUCT RANGE

We improved processes and operations within our merchandising group in Fiscal 2018, including achieving our targeted 40% reduction in SKU count. As we move forward, we are placing a greater emphasis on accelerating our product vision, especially with our new Chief Merchant having recently joined our leadership team. In Fiscal 2019, our world famous sweats will continue to evolve as we introduce new progressive styling and materials, and our brand range will include more transitional seasonal products. We are also targeting one or more meaningful product launch in each quarter.

### BUILDING THE BRAND

We focused our Fiscal 2018 marketing on tactical initiatives, such as new store openings and promotional events. As a result, we were challenged by a weaker overall brand voice. However, we did establish exciting new brand relationships, including international sensation, Shawn Mendes, and major global airline, Air Canada, which you can expect to see more of in Fiscal 2019. During the year, we also developed our Brand Compass, a resource that clearly captures the heritage, positioning, focus consumers and future direction of the Company, allowing us to enter



## Thoughts from Jim



Fiscal 2019 with a sharper brand focus. The lifestyle we represent – uniting the best of cabin and city, experiencing everyday adventures with comfort and style, and the idea of being true to our nature – resonates on a global scale. With a greater focus on implementing large-scale, brand-building marketing campaigns going forward, our brand community will see those sentiments come alive in the marketplace, starting with the digitally-driven brand campaign we launched in late April 2019.

### FISCAL 2018 FINANCIAL PERFORMANCE

Looking at our financial performance, Fiscal 2018 sales were \$329.0 million. In terms of Comparable Sales Growth, it was positive every quarter except Q3 2018, resulting in Comparable Sales Decline of (1.3%) for the year. However, on a two-year stacked basis, our Comparable Sales Growth was 10.9%. In addition, our direct-to-consumer gross margin for the year was 61.2%, a 220-basis point improvement over Fiscal 2017. Reflecting softer top-line results and our increased strategic investments in the business, Adjusted EBITDA of \$41.9 million and Adjusted Net Income of \$20.2 million, or \$0.48 per share, were both down year-over-year.

Part-way through the year, we commenced the largest capital project in the Company's history, our new integrated distribution centre. This is an exciting development for the business. Once up and running, our new distribution centre will enable us to more effectively manage inventory across stores and eCommerce, reduce working capital, deliver to stores and consumers more quickly, and drive cost-per-unit savings over the long term. Equally important, it better supports our Canadian and U.S. sales growth expectations.

### OUTLOOK

We are an iconic brand with a more than four-decade history of delighting our consumers with great products and engaging experiences. We are confident that we are on track to build on our record revenue in 2018 and deliver on our Fiscal 2019 financial targets of: sales of \$358 to \$375 million; Adjusted EBITDA of \$46 to \$50 million; and Adjusted Net Income of \$20 to \$24 million. Our long-term prospects remain unchanged, and we continue to be well-positioned to gain increasing traction on an international scale.

We will continue to work to leverage our operational investments to drive efficiencies within the business, benefiting from the talent and expertise that we've added to our team. We also plan to strategically grow our store network in Canada by one to two stores, continue to renovate and expand five to seven high-performing Canadian stores, regionally expand our store network in the U.S. with the addition of one to two stores, and sustain our rapid eCommerce growth momentum with the expectation that it reaches 17 to 19 percent of total direct-to-consumer sales. Globally, we will work with our partner to continue to develop existing and new markets in Asia.

## Thoughts from Jim



### WITH THANKS

I want to take this opportunity to thank the entire Roots team for their dedication. I would also like to thank our Board of Directors and Roots Founders, Michael Budman and Don Green, for their support and guidance as we continue to work to deliver on our commitments to you, our valued shareholders.

Jim Gabel  
President & CEO





All figures discussed in this annual report are stated in \$CAD millions, unless otherwise noted.

### NON-IFRS MEASURES AND INDUSTRY METRICS

This annual report makes reference to certain non-IFRS measures including certain metrics specific to the industry in which we operate. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures are not intended to represent, and should not be considered as alternatives to net income or other performance measures derived in accordance with IFRS as measures of operating performance or operating cash flows or as a measure of liquidity. In addition to our results determined in accordance with IFRS, we use non-IFRS measures including EBITDA, adjusted EBITDA, adjusted net income and adjusted net income per diluted share. This annual report also refers to comparable sales growth (decline), a commonly used metric in our industry but that may be calculated differently compared to other companies. We believe these non-IFRS measures and industry metrics provide useful information to both management and investors in measuring our financial performance and condition and highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. Definitions and reconciliations of non-IFRS measures to the relevant reported measures can be found in our MD&A under "Cautionary Note Regarding Non-IFRS Measures and Industry Metrics", which is available on SEDAR at [www.sedar.com](http://www.sedar.com).



### FORWARD-LOOKING INFORMATION

Certain information in this annual report contains forward-looking information. This information is based on management's reasonable assumptions and beliefs in light of the information currently available to us and are made as of April 2, 2019. Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of various factors. Information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. Statements containing forward-looking information are not facts but instead represent management's expectations, estimates and projections regarding future events or circumstances. Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements.

See "– forward-looking Cautionary Note regarding "Forward-Looking Information" and "Risks and Uncertainties" in the Company's MD&A and "Forward-Looking Statements" and "Risk Factors" in the Company's AIF dated April 2, 2019, which are available on SEDAR at [www.sedar.com](http://www.sedar.com), for a discussion of the uncertainties, risks and assumptions associated with these statements. Readers are urged to consider the uncertainties, risks and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information. We have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law.

