



Pet Valu Reports Fourth Quarter and Fiscal Year 2022 Results
Provides Strong 2023 Outlook and Raises Quarterly Dividend by 67%

Markham, Ontario, March 7, 2023 - Pet Valu Holdings Ltd. ("Pet Valu" or the "Company") (TSX: PET), the leading Canadian specialty retailer of pet food and pet-related supplies, today announced its financial results for the fourth quarter and fiscal year ended December 31, 2022.

Fourth Quarter Highlights

- System-wide sales⁽¹⁾ were \$360.6 million, an increase of 25.0% versus the prior year. Excluding Chico⁽²⁾, system-wide sales grew 14.8%, primarily driven by same-store sales growth⁽¹⁾ of 11.8%.
- Revenue was \$266.0 million, up 19.3% versus last year. Excluding Chico, revenue grew 17.9%.
- Adjusted EBITDA⁽³⁾ was \$59.3 million, up 11.2% versus the prior year, representing 22.3% of revenue. Operating income was \$42.4 million, up 2.8% versus the prior year.
- Net income was \$25.9 million, down from \$26.7 million in the prior year.
- Adjusted Net Income⁽³⁾ was \$31.1 million or \$0.43 per diluted share, up 6.3% and 4.9%, respectively, versus the prior year.
- Opened 16 new stores and ended the quarter with 744 stores across the network.
- The Board of Directors of the Company declared a dividend of \$0.10 per common share.

Fiscal Year Highlights

- System-wide sales were \$1,290.7 million, an increase of 29.3% versus the prior year. Excluding Chico, system-wide sales grew 20.2%, primarily driven by same-store sales growth of 17.1%.
- Revenue was \$951.7 million, up 22.6% versus last year. Excluding Chico, revenue grew 21.4%.
- Adjusted EBITDA was \$214.8 million, up 17.8% versus the prior year, representing 22.6% of revenue. Operating income was \$160.2 million, up 23.8% versus the prior year.
- Net income was \$100.8 million, up from \$98.8 million in the prior year.
- Adjusted Net Income was \$114.6 million or \$1.59 per diluted share, up 57.0% and 55.9%, respectively, versus the prior year.

2023 Outlook

- The Company expects 2023 revenue between \$1,050 and \$1,075 million, driven by same-store sales growth between 7% and 10% and 40-50 new store openings, Adjusted EBITDA between \$230 and \$237 million and Adjusted Net Income per Diluted Share⁽³⁾ between \$1.60 and \$1.66.

"Solid execution by our teams and franchise owners in the fourth quarter of 2022 helped deliver a strong finish to an exceptional year for our business," said Richard Maltsbarger, President and Chief Executive Officer of Pet Valu. "We are continuing to take market share through our store expansion and compelling offerings, reinforcing our leading position in the very resilient Canadian pet industry."

"2023 looks to be another promising year, as we once again target growth above the industry's long-term run-rate, while executing on several key initiatives including our supply chain transformation," continued Mr. Maltsbarger. "Given our conviction in our outlook and our strong liquidity position, we are excited to announce a 67% increase to our quarterly dividend."

Financial Results for the Fourth Quarter Fiscal 2022

All comparative figures below are for the 13-week period ended December 31, 2022, compared to the 13-week period ended January 1, 2022.

Revenue was \$266.0 million in Q4 2022, an increase of \$43.0 million, or 19.3%, compared to \$223.1 million in Q4 2021. The current quarter includes \$3.1 million of franchise and other revenues from the acquisition of Chico. The increase in revenue was driven by growth in retail sales, as well as franchise and other revenues.

Same-store sales growth was 11.8% in Q4 2022 primarily driven by a 4.6% increase in same-store transactions and a 6.9% increase in same-store average spend per transaction. Same store sales growth in Q4 2022 included a benefit, representing approximately 1.4%, due to the timing of New Year's day. This is compared to same-store sales growth of 16.7% in Q4 2021, which primarily consisted of a 10.8% increase in same-store transactions and a 5.4% increase in same-store average spend per transaction.

Gross profit increased by \$14.3 million, or 17.4%, to \$96.3 million in Q4 2022, compared to \$82.0 million in Q4 2021. Gross profit margin was 36.2% in Q4 2022 compared to 36.8% in Q4 2021. The gross profit margin decrease was primarily driven by: (i) the unfavourable impact of the weaker Canadian dollar on non-domestic sourced products primarily denominated in U.S. dollars; (ii) higher wholesale merchandise sales due to increased franchise penetration; (iii) sales mix due to increased sales in national brands; partially offset by (iv) vendor recoveries associated with supply chain disruptions; and (v) the acquisition of Chico.

Selling, general and administrative ("SG&A") expenses were \$53.9 million in Q4 2022, an increase of \$13.1 million, or 32.2%, compared to \$40.8 million in Q4 2021. SG&A expenses represented 20.3% and 18.3% of total revenue for Q4 2022 and Q4 2021, respectively. The \$13.1 million increase in SG&A expenses was primarily due to: (i) increased compensation costs as a result of headcount and salary investments; (ii) higher technology costs to modernize our systems including our warehousing and omni-channel capabilities; (iii) higher depreciation and amortization; partially offset by (iv) higher gain on the sale of assets due to more re-franchised stores in Q4 2022.

Adjusted EBITDA increased by \$6.0 million, or 11.2%, to \$59.3 million in Q4 2022, compared to \$53.3 million in Q4 2021. The increase in Adjusted EBITDA was primarily due to higher EBITDA of \$2.6 million as explained by the factors described above and excludes business transformation costs, share-based compensation, other professional fees, information technology transformation costs, asset impairments, investment in associate, and loss on foreign exchange. Adjusted EBITDA as a percentage of revenue was 22.3% and 23.9% in Q4 2022 and Q4 2021, respectively.

Net interest expense was \$6.4 million in Q4 2022, an increase of \$2.0 million, or 46.0%, compared to \$4.4 million in Q4 2021. The increase was primarily driven by higher interest expense on the 2021 Term Facility (as defined in the Company's management's discussion and analysis of financial condition and results of operations ("MD&A") for the fiscal year ended December 31, 2022) resulting from higher interest rates on lower total debt outstanding compared to Q4 2021.

Income taxes were \$9.8 million in Q4 2022 compared to \$10.0 million in Q4 2021, a decrease of \$0.2 million year over year. The decrease in income taxes was primarily the result of lower taxable earnings in Q4 2022. The effective income tax rate was 27.4% in Q4 2022 compared to 27.2% in Q4 2021. The Q4 2022 and Q4 2021 effective tax rate is higher than the blended statutory rate of 26.5% primarily because of non-deductible expenses.

Net income decreased by \$0.9 million to \$25.9 million in Q4 2022, compared to \$26.7 million in Q4 2021. The change in net income is explained by the factors described above.

Adjusted Net Income increased by \$1.8 million to \$31.1 million in Q4 2022, compared to \$29.3 million in Q4 2021. Adjusted Net Income as a percentage of revenue was 11.7% in Q4 2022 and 13.1% in Q4 2021. The 1.4% year over year decrease results from the factors described above.

Adjusted Net Income per Diluted Share increased by \$0.02 to \$0.43 in Q4 2022, compared to \$0.41 in Q4 2021. The 4.9% year over year increase results primarily from the factors described above.

Cash and cash equivalents at the end of the fourth quarter totaled \$63.0 million.

Free Cash Flow⁽³⁾ amounted to \$25.0 million in Q4 2022 compared to \$35.3 million in Q4 2021, a decrease of \$10.3 million primarily driven by a decrease in cash from operating activities, an increase in cash used for investing activities partially offset by a decrease in repayment of principal on lease liabilities due to timing of lease payments.

Inventory at end of Q4 2022 was \$118.4 million compared to \$91.7 million at the end of Q4 2021, an increase of \$26.7 million primarily due to higher demand, inflation in product cost, a heightened level of safety stock and accelerated purchase of seasonal goods in light of global supply chain challenges, and initial load-ins to support proprietary brand launches at Chico.

Financial Results for Fiscal 2022

All comparative figures below are for the 52-week period ended December 31, 2022, compared to the 52-week period ended January 1, 2022.

Revenue was \$951.7 million in Fiscal 2022, an increase of \$175.7 million, or 22.6%, compared to \$776.0 million in Fiscal 2021. The current year includes \$9.7 million of franchise and other revenues from the acquisition of Chico. The increase in revenue was driven by growth in retail sales, as well as franchise and other revenues.

Same-store sales growth was 17.1% in Fiscal 2022 primarily driven by a 11.8% increase in same-store transactions and a 4.8% increase in same-store average spend per transaction. Same store sales growth in Fiscal 2022 included a benefit, representing approximately 0.4%, due to the timing of New Year's day. This is compared to same-store sales growth of 17.8% in Fiscal 2021 which primarily consisted of a 10.5% increase in same-store transactions and a 6.6% increase in same-store average spend per transaction. Same-store transactions and same-store average spend per transaction in Fiscal 2021 were impacted by a shift in consumer behaviour associated with COVID-19 restrictions.

Gross profit increased by \$65.1 million, or 22.7%, to \$352.3 million in Fiscal 2022, compared to \$287.2 million in Fiscal 2021. Gross profit margin was 37.0% of revenue in Fiscal 2022 and in Fiscal 2021. The gross profit margin shifts between Fiscal 2022 and Fiscal 2021 are mainly explained by: (i) leverage gained on fixed costs due to higher revenue; (ii) duty and vendor recoveries associated to COVID relief measures and supply chain disruption; (iii) the acquisition of Chico; offset by (iv) higher wholesale merchandise sales and increased franchise penetration; (v) lower product margins as pricing adjustments were more than offset by higher costs including incremental freight costs; and (vi) the unfavourable impact of the weaker Canadian dollar on non-domestic sourced products primarily denominated in U.S. dollars.

Selling, general and administrative expenses were \$192.1 million in Fiscal 2022, an increase of \$34.3 million, or 21.8%, compared to \$157.8 million in Fiscal 2021. SG&A expenses represented 20.2% and 20.3% of total sales and revenue for Fiscal 2022 and Fiscal 2021, respectively. The increase of \$34.3 million in SG&A expenses was primarily due to: (i) increased compensation costs as a result of headcount and salary investments; (ii) higher technology costs to modernize our systems including our omni-channel and warehousing capabilities; (iii) higher advertising expenses; (iv) depreciation and amortization; partially offset by (v) lower professional fees as Fiscal 2021 included fees to support the preparation of the Company's initial public offering (the "Offering") and separation activities.

Adjusted EBITDA increased by \$32.5 million, or 17.8%, to \$214.8 million in Fiscal 2022, compared to \$182.3 million in Fiscal 2021. The increase in Adjusted EBITDA was primarily due to higher EBITDA of \$35.2 million, excluding the impact of foreign exchange gains or losses, and as explained by the factors described above. Adjusted EBITDA also excludes readiness for the Offering and separation costs, share-based compensation, management fees, asset impairments, business transformation costs, other professional fees, investment in associate, and information technology transformation costs. Adjusted EBITDA as a percentage of revenue was 22.6% and 23.5% in Fiscal 2022 and Fiscal 2021, respectively.

Net interest expense was \$20.5 million in Fiscal 2022, a decrease of \$26.4 million, or 56.3%, compared to \$46.9 million in Fiscal 2021. The decrease was primarily driven by: (i) lower interest expense on the 2021 Term Facility resulting from lower interest rates and lower total debt outstanding compared to the 2016 Term Loan (as defined in the MD&A for the fiscal year ended December 31, 2022) which was repaid following the closing of the Offering in Fiscal 2021; (ii) lower fees on the commitment for the standby letter of credit; and (iii) lower amortization of deferred financing costs. The decrease in net interest expense is also attributable to the prior year write off of \$5.7 million of unamortized deferred financing costs as debt extinguishment costs upon repayment of the 2016 Credit Agreement (as defined in the MD&A for the fiscal year ended December 31, 2022) following the closing of the Offering in Fiscal 2021.

Income taxes were \$37.9 million in Fiscal 2022 compared to \$26.3 million in Fiscal 2021, an increase of \$11.6 million year over year. The increase in income taxes was primarily the result of higher taxable earnings in Fiscal 2022. The effective income tax rate was 27.3% in Fiscal 2022 compared to 21.0% in the prior year. The Fiscal 2022 effective tax rate is higher than the blended statutory rate of 26.5% primarily because of non-deductible expenses. The Fiscal 2021 effective tax rate is lower than the blended statutory rate of 26.5% primarily because of the favourable tax treatment on foreign exchange gains related to the repayment of the 2016 Term Loans and on the settlement of a foreign exchange forward contract, partially offset by \$1.4 million cumulative income tax expense related to the enactment of Bill C-30 and interest income earned from advances made to our former U.S legal entity subsidiaries for 2019 and 2020. The Company previously made protective elections to impute taxable interest income from these advances under the Pertinent Loan or Indebtedness regime.

Net income increased by \$2.0 million to \$100.8 million in Fiscal 2022, compared to \$98.8 million in Fiscal 2021. In addition to the factors described above, the change in net income is also explained by a higher gain on foreign exchange of \$43.2 million in Fiscal 2021 from the repayment of the 2016 Term Loans and from the settlement of a foreign exchange forward contract.

Adjusted Net Income increased by \$41.6 million to \$114.6 million in Fiscal 2022, compared to \$73.0 million in Fiscal 2021. Adjusted Net Income as a percentage of revenue was 12.0% in Fiscal 2022 and 9.4% in Fiscal 2021. The 2.6% year over year increase results from the factors described above.

Adjusted Net Income per Diluted Share increased by \$0.57 to \$1.59 in Fiscal 2022, compared to \$1.02 in Fiscal 2021. The 55.9% year over year increase results primarily from the factors described above.

Free Cash Flow amounted to \$50.2 million in Fiscal 2022 compared to \$86.3 million in Fiscal 2021, a decrease of \$36.1 million primarily driven by a decrease in cash from investing activities and operating activities, partially offset by a decrease in repayment of principal on lease liabilities due to timing of lease payments.

⁽¹⁾ This is a supplementary financial measure. Refer to "Non-IFRS Measures and Supplementary Financial Measures" below and to the section entitled "How We Assess the Performance of our Business" in the MD&A for the fiscal year ended December 31, 2022 for the definitions of supplementary financial measures.

⁽²⁾ On February 25, 2022, the Company acquired all of the issued and outstanding shares of Les Franchises Chico Inc. and 9353-0145 Quebec Inc. (collectively referred to as "Chico"), a franchisor of pet specialty stores in Quebec, Canada.

⁽³⁾ This is a non-IFRS financial measure. Non-IFRS financial measures are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Refer to "Non-IFRS Measures and Supplementary Financial Measures" and "Selected Consolidated Financial Information" below, including for a reconciliation of the non-IFRS measures used in this release to the most comparable IFRS measures. Also refer to the sections entitled "How We Assess the Performance of our Business", "Non-IFRS Measures and Supplementary Financial Measures" and "Selected Consolidated Financial Information and Industry Metrics" in the MD&A for the fiscal year ended December 31, 2022, incorporated by reference herein, for further details concerning Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share and Free Cash Flow including definitions and reconciliations to the relevant reported IFRS measure.

Dividends

On March 6, 2023, the Board of Directors of the Company declared a dividend of \$0.10 per common share payable on April 17, 2023 to holders of common shares of record as at the close of business on March 31, 2023.

Outlook

For the full year 2023, the Company expects:

- Revenue between \$1,050 and \$1,075 million, supported by same-store sales growth of between 7% and 10%, and 40 to 50 new store openings;
- Gross profit margin slightly below the Company's historical range of 35% to 36%, as the Company faces unfavourable foreign exchange rates and incurs approximately 80 basis points of cost associated with its supply chain transformation;
- Adjusted EBITDA between \$230 and \$237 million, which incorporates expense leverage on investments made in 2022, partially offset by the unfavourable foreign exchange rates;
- Adjusted Net Income per Diluted Share between \$1.60 and \$1.66;
- Business transformation costs of approximately \$13 million, Information Technology costs of approximately \$7 million, and share-based compensation of approximately \$8 million, all of which are excluded from Adjusted EBITDA and Adjusted Net Income per Diluted Share; and
- Net Capital Expenditures⁽⁴⁾ of approximately \$60 million, roughly half of which is attributable to investments in the Company's supply chain transformation.

⁽⁴⁾ This is a Non-IFRS financial measure. Non-IFRS financial measures are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Refer to "How We Assess the Performance of our Business" in the MD&A for the fiscal year ended December 31, 2022 for the definitions of Non-IFRS financial measures.

Conference Call Details

A conference call to discuss the Company's fourth quarter results is scheduled for March 7, 2023, at 8:30 a.m. ET. To access Pet Valu's conference call, please dial 1-833-950-0062 (ID: 056004). A live webcast of the call will also be available through the Events & Presentations section of the Company's website at <https://investors.petvalu.com/>.

For those unable to participate, a playback will be available shortly after the conclusion of the call by dialing 1-226-828-7578 (ID: 493178) and will be accessible until March 21, 2023. The webcast will also be archived and available through the Events & Presentations section of the Company's website at <https://investors.petvalu.com/>.

About Pet Valu

Pet Valu is Canada's leading retailer of pet food and pet-related supplies with over 700 corporate-owned or franchised locations across the country. For more than 40 years, Pet Valu has earned the trust and loyalty of pet parents by offering knowledgeable customer service, a premium product offering and engaging in-store services. Pet Valu's neighbourhood stores offer more than 7,000 competitively-priced products, including a broad assortment of premium, super premium, holistic and award-winning proprietary brands. To learn more, please visit: www.petvalu.com.

Basis of Presentation — Carve-out Financial Information

Prior to the Offering, the Company was not operating as a stand-alone entity and as a result, the financial information for periods prior to June 30, 2021 are presented on a carve-out basis that includes only legal entities representing the Canadian operations of Pet Valu Holdings Ltd. (referred to as the "Group", prior to the distribution of its U.S. operations to its shareholder). For more information, see the Company's audited consolidated financial statements and related management's discussion and analysis of financial condition and results of operations for the fiscal years ended December 31, 2022 and January 1, 2022.

Non-IFRS Measures and Supplementary Financial Measures

This press release makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. Pet Valu uses non-IFRS measures, including "EBITDA", "Adjusted EBITDA", "Adjusted Net Income", "Adjusted Net Income per Diluted Share", "Free Cash Flow" and "Net Capital Expenditures". This press release also makes reference to certain supplementary financial measures that are commonly used in the retail industry, including "System-wide stores", "System-wide sales", "Same-store sales", and "Same-store sales growth". These non-IFRS measures and supplementary financial measures are used to provide investors with supplemental measures of Pet Valu's operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures and these supplementary financial measures in the evaluation of issuers. Management uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation. Refer to the MD&A for the fiscal year ended December 31, 2022 for further information on

non-IFRS measures and industry metrics, including for their definition and, for non-IFRS measures, a reconciliation to the most comparable IFRS measure.

Forward-Looking Information

Some of the information contained in this press release is forward-looking information. Forward-looking information is provided as of the date of this press release and is based on management's opinions, estimates and assumptions in light of its experience and perception of historical trends, current trends, current conditions and expected future developments, as well as other factors that management believes appropriate and reasonable in the circumstances. Such forward-looking information is intended to provide information about management's current expectations and plans, and may not be appropriate for other purposes. Pet Valu does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable Canadian securities laws. Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of various factors. Particularly, information regarding our expectations of future results, targets, performance achievements, prospects or opportunities, including the information under the headings "2023 Outlook" and "Outlook" in this press release, is forward-looking information, which is based on the factors and assumptions, and subject to the risks, as set out herein and in the Company's annual information form dated March 6, 2023 ("AIF"). Often but not always, forward-looking information can be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology.

Many factors could cause our actual results, level of activity, performance or achievements, future events or developments, or outlook to differ materially from those expressed or implied by the forward-looking information, including, without limitation, the factors discussed in the "Risk Factors" section of the AIF. A copy of the AIF and the Company's other publicly filed documents can be accessed under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

The Company cautions that the list of risk factors and uncertainties described in the AIF is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating forward-looking information and are cautioned not to place undue reliance on such information.

For more information:

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

Condensed Interim Consolidated Statements of Income and Comprehensive Income

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

	Quarters Ended		Fiscal Year Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Revenue:				
Retail sales	\$ 109,289	\$ 96,664	\$ 402,586	\$ 347,305
Franchise and other revenues	156,755	126,389	549,111	428,708
Total revenue	266,044	223,053	951,697	776,013
Cost of sales	169,740	141,029	599,400	488,834
Gross profit	96,304	82,024	352,297	287,179
Selling, general and administrative expenses	53,893	40,758	192,105	157,773
Total operating income	42,411	41,266	160,192	129,406
Interest expenses, net	6,429	4,403	20,478	46,873
Loss (gain) on foreign exchange	180	105	1,111	(42,560)
Other loss (income)	139	8	(68)	8
Income before income taxes	35,663	36,750	138,671	125,085
Income taxes expense	9,782	10,009	37,905	26,292
Net income	25,881	26,741	100,766	98,793
Less:				
Net income attributable to non-controlling interests	—	—	—	3,430
Net income attributable to the shareholders of the Company	25,881	26,741	100,766	95,363
Other comprehensive income, net of tax:				
Currency translation adjustments reclassified to net income	—	—	—	(29,665)
Currency translation adjustments that may be reclassified to net income, net of tax	(5)	2	20	21,082
Comprehensive income for the period attributable to the shareholders of the Company	\$ 25,876	\$ 26,743	\$ 100,786	\$ 86,780
Basic net income per share attributable to the common shareholders	\$ 0.37	\$ 0.38	\$ 1.43	\$ 1.36
Diluted net income per share attributable to the common shareholders	\$ 0.36	\$ 0.37	\$ 1.40	\$ 1.33

Reconciliation of Net Income to EBITDA and Adjusted EBITDA

(Unaudited, in thousands of Canadian dollars unless otherwise noted)

	Quarters Ended		Fiscal Year Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Reconciliation of net income to Adjusted EBITDA:				
Net income	\$ 25,881	\$ 26,741	\$ 100,766	\$ 98,793
Depreciation and amortization	10,332	8,637	38,073	33,714
Interest expenses, net	6,429	4,403	20,478	46,873
Income taxes expense	9,782	10,009	37,905	26,292
EBITDA	52,424	49,790	197,222	205,672
Adjustments to EBITDA:				
Management fees ⁽¹⁾	—	—	—	679
Information technology transformation costs ⁽²⁾	1,984	1,518	5,313	5,314
IPO readiness and separation costs ⁽³⁾	—	—	—	4,229
Business transformation costs ⁽⁴⁾	1,482	514	2,697	2,438
Other professional fees ⁽⁵⁾	714	246	1,873	1,789
Share-based compensation ⁽⁶⁾	1,930	1,154	6,248	4,733
Asset impairments ⁽⁷⁾	448	—	448	17
Loss (gain) on foreign exchange ⁽⁸⁾	180	105	1,111	(42,560)
Investment in associate ⁽⁹⁾	139	8	(68)	8
Adjusted EBITDA	\$ 59,301	\$ 53,335	\$ 214,844	\$ 182,319
Adjusted EBITDA as a percentage of revenue	22.3%	23.9%	22.6%	23.5%

Notes:

- (1) Represents management fees paid to entities affiliated with Roark Capital Management, LLC ("Roark"). Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; (ii) retention bonuses for certain key management personnel in connection with the Offering; and (iii) Fiscal 2021 includes professional fees incurred with respect to the 2021 Secondary Offering.
- (4) For Fiscal 2022, represents expenses associated to supply chain transformation initiatives, including the new distribution centre. For Fiscal 2021, predominately represents severance, recruitment, and consulting expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Professional fees primarily incurred with respect to: (i) the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year; (ii) acquisition and integration costs incurred in relation to Chico in Fiscal 2022; and (iii) professional fees incurred with respect to the 2022 Secondary Offering.
- (6) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.
- (7) Non-cash impairment charge taken against certain right-of-use assets for closed or relocated corporate-owned stores.
- (8) Represents foreign exchange gains and losses.
- (9) Represents the Company's share of loss from associate (Q4 2022 and Fiscal 2022 — \$0.2 million and \$0.5 million, respectively) and the gain on the fair value of the related call option (Q4 2022 and Fiscal 2022 — \$0.1 million and \$0.6 million, respectively). In Q3 2022, the Company revised its definition of Adjusted EBITDA to exclude the gain on the fair value of the related call option. Comparative figures for Fiscal 2021 are not impacted by the change in definition.

Reconciliation of Net Income to Adjusted Net Income

(Unaudited, in thousands of Canadian dollars unless otherwise noted)

	Quarters Ended		Fiscal Year Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Reconciliation of net income to Adjusted Net Income:				
Net income	\$ 25,881	\$ 26,741	\$ 100,766	\$ 98,793
Adjustments to net income:				
Management fees ⁽¹⁾	—	—	—	679
Information technology transformation costs ⁽²⁾	1,984	1,518	5,313	5,314
IPO readiness and separation costs ⁽³⁾	—	—	—	4,229
Business transformation costs ⁽⁴⁾	1,482	514	2,697	2,438
Other professional fees ⁽⁵⁾	714	246	1,873	1,789
Share-based compensation ⁽⁶⁾	1,930	1,154	6,248	4,733
Asset impairments ⁽⁷⁾	448	—	448	17
Loss (gain) on foreign exchange ⁽⁸⁾	180	105	1,111	(42,560)
Investment in associate ⁽⁹⁾	139	8	(68)	8
Tax effect of adjustments to net income	(1,631)	(990)	(3,817)	(2,470)
Adjusted Net Income	\$ 31,127	\$ 29,296	\$ 114,571	\$ 72,970
Adjusted Net Income as a percentage of revenue	11.7%	13.1%	12.0%	9.4%
Adjusted Net Income per Diluted Share	\$ 0.43	\$ 0.41	\$ 1.59	\$ 1.02

Notes:

- (1) Represents management fees paid to entities affiliated with Roark. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; (ii) retention bonuses for certain key management personnel in connection with the Offering; and (iii) Fiscal 2021 includes professional fees incurred with respect to the 2021 Secondary Offering.
- (4) For Fiscal 2022, represents expenses associated to supply chain transformation initiatives, including the new distribution centre. For Fiscal 2021, predominately represents severance, recruitment, and consulting expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Professional fees primarily incurred with respect to: (i) the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year; (ii) acquisition and integration costs incurred in relation to Chico in Fiscal 2022; and (iii) professional fees incurred with respect to the 2022 Secondary Offering.
- (6) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.
- (7) Non-cash impairment charge taken against certain right-of-use assets for closed or relocated corporate-owned stores.
- (8) Represents foreign exchange gains and losses.
- (9) Represents the Company's share of loss from associate (Q4 2022 and Fiscal 2022 — \$0.2 million and \$0.5 million, respectively) and the gain on the fair value of the related call option (Q4 2022 and Fiscal 2022 — \$0.1 million and \$0.6 million, respectively). In Q3 2022, the Company revised its definition of Adjusted EBITDA to exclude the gain on the fair value of the related call option. Comparative figures for Fiscal 2021 are not impacted by the change in definition.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited, in thousands of Canadian dollars)

	Quarters Ended		Fiscal Year Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$ 25,881	\$ 26,741	\$ 100,766	\$ 98,793
Adjustments for items not affecting cash:				
Depreciation and amortization	10,332	8,637	38,073	33,714
Impairment of right-of-use assets	448	—	448	17
Deferred franchise fees	354	184	420	849
Gain on disposal of property and equipment	(1,242)	(158)	(1,561)	(1,016)
Loss on sale of right-of-use assets	333	402	793	117
Loss (gain) on foreign exchange	180	105	1,111	(42,560)
Gain on financial instruments	(52)	—	(551)	—
Share-based compensation expense	1,930	1,154	6,248	2,199
Share of loss from associate	191	8	483	8
Interest expenses, net	6,429	4,403	20,478	46,873
Income taxes expense	9,782	10,009	37,905	26,292
Income taxes paid	(5,550)	(2,719)	(36,673)	(13,117)
Security deposits paid	—	—	(5,073)	—
Change in non-cash operating working capital:				
Accounts receivable	(1,228)	1,423	(6,834)	(1,181)
Inventories	17,614	(3,577)	(26,133)	(13,687)
Prepaid expenses	(4,979)	2,019	(8,194)	277
Accounts payable and accrued liabilities	(13,483)	4,460	1,818	581
Net cash provided by operating activities	46,940	53,091	123,524	138,159
Financing activities:				
Issuance of common shares, net of transaction costs	—	—	—	295,210
Proceeds from exercise of share options	3,368	1	8,062	63
Dividends paid on common shares	(4,251)	(700)	(16,927)	(700)
Proceeds of 2021 Term Facility	—	—	—	355,000
Repayment of 2021 Term Facility	(2,219)	(2,219)	(8,875)	(4,438)
Proceeds of 2021 Revolving Credit Facility	—	—	—	40,000
Repayment of 2021 Revolving Credit Facility	—	—	—	(40,000)
Repayment of 2016 Term Loans	—	—	—	(680,424)
Interest paid on long-term debt	(5,987)	(2,315)	(18,626)	(41,290)
Repayment of principal on lease liabilities	(7,371)	(11,473)	(43,212)	(46,640)
Interest paid on lease liabilities	(3,065)	(2,908)	(11,853)	(11,557)
Financing costs	—	—	—	(6,589)
Standby letter of credit commitment fees	(745)	(639)	(1,373)	(4,994)
Net distributions	—	—	—	(16,983)
Net cash used in financing activities	(20,270)	(20,253)	(92,804)	(163,342)
Investing activities:				
Business acquisition, net of cash acquired	—	—	(12,538)	—
Purchases of property and equipment	(22,140)	(9,017)	(38,833)	(23,787)
Purchase of intangible assets	(738)	(805)	(3,424)	(2,399)
Proceeds on disposal of property and equipment	2,261	724	3,643	5,167
Right-of-use asset initial direct costs	(939)	(840)	(2,157)	(2,275)
Tenant allowances	787	498	1,459	744
Notes receivable	55	(2,585)	950	(2,348)
Lease receivables	7,033	6,339	27,050	24,089
Interest received on lease receivables and other	2,651	1,842	8,703	6,974
Investment in associate	(399)	(2,174)	(2,178)	(2,174)
Net cash (used in) provided by investing activities	(11,429)	(6,018)	(17,325)	3,991
Effect of exchange rate on cash	11	(64)	(429)	(221)
Net increase (decrease) in cash	15,252	26,756	12,966	(21,413)
Cash, beginning of period	47,782	23,312	50,068	71,481
Cash, end of period	\$ 63,034	\$ 50,068	\$ 63,034	\$ 50,068

Free Cash Flows

(Unaudited, expressed in thousands of Canadian dollars)

	Quarters Ended		Fiscal Year Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Cash provided by operating activities	\$ 46,940	\$ 53,091	\$ 123,524	\$ 138,159
Cash (used in) provided by investing activities	(11,429)	(6,018)	(17,325)	3,991
Repayment of principal on lease liabilities	(7,371)	(11,473)	(43,212)	(46,640)
Interest paid on lease liabilities	(3,065)	(2,908)	(11,853)	(11,557)
Notes receivable	(55)	2,585	(950)	2,348
Free Cash Flow	\$ 25,020	\$ 35,277	\$ 50,184	\$ 86,301

Consolidated Statements of Financial Position

(Audited, expressed in thousands of Canadian dollars)

	As at December 31, 2022	As at January 1, 2022
Assets		
Current assets:		
Cash	\$ 63,034	\$ 50,068
Accounts and other receivables	22,965	14,398
Inventories, net	118,410	91,699
Prepaid expenses and other assets	22,262	10,432
Current portion of lease receivables	29,827	26,621
Total current assets	256,498	193,218
Non-current assets:		
Long-term lease receivables	141,187	121,936
Right-of-use assets, net	82,242	80,757
Property and equipment, net	91,774	62,067
Intangible assets, net	52,280	37,359
Goodwill	97,574	92,938
Deferred tax assets	6,652	5,601
Investment in associate	4,708	2,179
Other assets	7,261	3,118
Total non-current assets	483,678	405,955
Total assets	\$ 740,176	\$ 599,173
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 103,782	\$ 86,977
Income taxes payable	15,141	13,553
Current portion of deferred franchise fees	1,197	1,032
Current portion of lease liabilities	51,335	41,960
Current portion of long-term debt	17,750	8,875
Total current liabilities	189,205	152,397
Non-current liabilities:		
Long-term deferred franchise fees	4,017	3,183
Long-term lease liabilities	215,966	196,954
Long-term debt	320,063	336,621
Deferred tax liabilities	8,250	4,540
Other liabilities	2,299	—
Total non-current liabilities	550,595	541,298
Total liabilities	739,800	693,695
Shareholders' equity (deficit):		
Common shares	316,208	307,497
Contributed surplus	4,107	1,779
Deficit	(319,780)	(403,619)
Currency translation reserve	(159)	(179)
Total shareholders' equity (deficit)	376	(94,522)
Total liabilities and shareholders' equity	\$ 740,176	\$ 599,173